A Theory of Formal Organization and Its Acceptance by the Business Practitioner

Edgar Thomas Busch

University of Arkansas, Fayetteville

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A THEORY OF FORMAL ORGANIZATION AND ITS ACCEPTANCE

BY THE BUSINESS PRACTITIONER
A THEORY OF FORMAL ORGANIZATION AND ITS ACCEPTANCE

BY THE BUSINESS PRACTITIONER

A dissertation submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy

by

Edgar Thomas Busch
B.S., Indiana University, 1955
M.B.A., University of Denver, 1958

1970
The University of Arkansas
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CHAPTER I

INTRODUCTION

The Undeveloped State of Formal Organization Theory

Even though formal organizations are of increasing importance, theoretical concepts surrounding them have not been sufficiently studied. This view regarding inadequate attention and the undeveloped state of organization theory has a number of adherents both inside and outside the management and behavioral science fields. W. W. Haynes is one example.

Kenneth E. Boulding, especially known for his work in economics, makes the same point in his study on organizational revolution.

Formal organizations proliferate today. There are not only more formal organizations than ever before, but their growth in size has given them a significant part to play in the economy. Carzo and Yanouzas state that formal organizations are the dominant form of institution in modern society. These two writers point out that formal organizations—as the main institution—resulted from a high degree of

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specialization and a rising standard of living. As the living standard goes up, organizations have more demands placed on them to meet society's wants and to meet them efficiently. The net result is that "formal organizations pervade in all aspects of modern life, and they command the attention, time, and energy of most people. This fact alone is justification for the study of formal organizations."  

This is not to say that organization theory has not been studied. Over the years theories of organization have become numerous. Pfiffner and Sherwood highlight benchmark theories they call the traditional machine model, Weber's bureaucracy model, the Mooney and Reiley model, and the public administration model. Katz and Kahn provide an open system theory. Herbert Simon has a theory, Carzo and Yanouzas have a theory—and so the list goes. This multiplicity of theories has been classified and reclassified into a number of schools of thought. One result is that by one set of criteria a theory may be considered traditional while by another it might fall under some social theory.

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4 Carzo and Yanouzas, op. cit., p. 11.

5 Ibid., p. 11.


10 Carzo and Yanouzas, op. cit.
As a further indication of the heterogeneity of theories and their categorization, reference may be made to Harold Koontz who classifies management organization thought into six schools: human behavior, operational, empirical, social systems, mathematical, and decisions theory.11

Other writers deal with organization theory by classifying the organizations themselves, e.g., Parsons, who classified organizations by the social need to which the organization is oriented—orientation to economic production, orientation to political goals, orientation toward social integration, and an orientation toward pattern maintenance.12 Blau and Scott categorize organizations on the basis of the prime beneficiary, i.e., mutual benefit associations which benefit the membership, business concerns whose owners primarily benefit, service organizations in which clients benefit, and commonweal organizations in which society is the main beneficiary.13

The Purposes Of This Study

Thus, under a variety of labels there are many organization theories extant. Part of these many theories have empirical evidence as support. Yet, it appeared that a significant supporting view had been relatively ignored by theoreticians.


Unless top managers' and policy makers' views regarding organization theory are assumed to be of no importance, these views have not been adequately studied. No one had investigated on a broad scale the reactions of businessmen toward a given set of concepts which make up a comprehensive theory of formal organization. Yet the manager's reactions, attitudes, or opinions set the tone of the organization and determine his success as a manager. If a manager's thinking is, for example, that delegated authority need not be co-equal with responsibility, then is it not likely that within his firm there will be a greater tendency to hold persons responsible for things they do not have the authority to handle than will exist within a firm with a manager who believes in the co-equality of authority and responsibility?

As Dale Yoder writes, it is upon the individual manager's theories that this manager makes his own managerial decisions. It is his theories which tell him whether to hold a tight or loose rein over his subordinates, whether to talk or to listen in his communications, whether to support more government activity in business and so on. It should be of benefit to have increased knowledge of those views—of top management on organization for it is these views which

16 Yoder, loc. cit.
will affect the policies and programs which management ultimately selects to achieve the goals it has in mind.

This study, then, will report on the statements of some practitioners of the art and science of management in regard to various facets of a given broad theory of organization developed by Dr. Robert D. Hay of the University of Arkansas. The knowledge of what businessmen believe will provide a more sound basis upon which to build modern theory and modify or further investigate currently held viewpoints. Additional data should contribute to the development of organization theory and help resolve some controversy. As Waino Suojanen points out, "Management theory has not yet advanced to the point where it can afford to reject the concept that research increases the sum total of human knowledge." It is an assumption of this study that insufficient research has been done among those—the practitioners—who should be able to offer valuable viewpoints.

Institutions of higher learning spend much time, money, and effort teaching various principles of organization without knowing if those who are supposed to use the theory principles really think they are correct. Managers' disagreement with key points of the theory proposed in this study may suggest that new content be sought for organization theory courses or that methods of presentation of theory should be modified.

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Over-view of Literature

To provide a better perspective of some writing in the field of organization theory a review of some well-known theories follows.

Much of traditional organization theory is embodied in the traditional machine, Mooney and Reiley, and bureaucracy models.

The traditional machine theory is so called because it considers workers to be automatons. Labor is a commodity to be bought and used as management sees fit. The worker is expected to adjust to the job and if he is unable to do so then his services are terminated. Workers do little thinking and no talking back to the boss. Communications flow downward except for reports of accomplishment to superiors.19

Among the first of the organization theorists were James D. Mooney and Alan C. Reiley who developed four major groups of "principles." The coordinative principle is the main one for it provides for the unity necessary to achieve the over-all goal. For the coordinating authority to work properly throughout the organization, a formal process must exist. This process operates through the scalar principle which means a grading of duties according to degrees of authority and corresponding responsibility.

Another basic principle is that of functionalism by which is meant the distinction between kinds of duties, i.e., it brings out the concept of specialization. The final "principle" is the staff phase of functionalism. This staff service represents the authority of ideas

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while the line (as shown in the scalar principle) represents the authority of man.  

Max Weber, the founder of systematic study of bureaucratic organizations, wrote of the characteristics of an ideal bureaucracy. This ideal includes (1) a continuous organization of official functions bound by rules, (2) a specified sphere of competence, (3) the organizing of offices to achieve hierarchial form, (4) rules regulating conduct may be technical or may be norms but recognizing that a fully rational application of the rules or norms necessitates specialized training, (5) administrators totally separated from the ownership of the means of production, (6) a complete absence of appropriation of his official position by the position holder, and (7) decisions and rules recorded in writing to reduce the amount of unpredictability in the organization.  

The public administration model referred to by Pfiffner and Sherwood relates to governmental reorganization as generally desired by consultants and reform groups such as the Hoover Commission. The model includes unity of command, administrative authority following a hierarchial pattern, a span of control of workable size, coordination through the budget by the chief administrative officer, boards for advice but not administration, use of staff for coordination and control, etc.


departmentation by general purpose, and the top political leader acting also as the administrative leader.\textsuperscript{22}

Herbert Simon states that:

The central concern of administrative theory is with the boundary between the rational and the non-rational aspects of human social behavior. Administrative theory is peculiarly the theory of intended and bounded rationality—of the behavior of human beings who \textit{satisfice} because they have not the wits to \textit{maximize}.\textsuperscript{23}

Simon writes that organization should not always be by purpose but that under certain conditions organization by purpose is desirable and under other conditions process organization is desirable. His point is that understanding of these underlying conditions for the applying of principles can be obtained by analyzing the administrative process in terms of decisions.\textsuperscript{24}

Thus, the rationality of decisions is the main problem of theory. The need for theory exists because there are, in fact, practical limits to human rationality and these limits depend upon the organizational environment in which the decision is made. Administration should construct the environment so the individual will approach as closely as practicable to rationality in his decisions.\textsuperscript{25}

Recent organization theory literature includes references to open system theory. Two of the proponents of this approach are Katz and Kahn. An open system, they say, constitutes "a recurrent pattern of events, differentiated from but dependent on the larger stream of

\textsuperscript{22}\textit{Pfiffner and Sherwood, op. cit.}, pp. 63-65.
\textsuperscript{24}\textit{Ibid.}, p. 240.
\textsuperscript{25}\textit{Ibid.}, p. 241.
life in which it occurs and recurs." An open system involves "... the flow of energy from the environment through the system itself and back into the environment." Not only is there a flow of energy but also a transformation of that energy.

Katz and Kahn believe the open system model can be adapted to basic categories of phenomena while concurrently adding specification to the framework in order to maximize the model's explanatory power.

Indicating that human organizations, if operating as a closed system, will incur entropy change to an extent that there is complete disorder and cessation of all processes, Carzo and Yanouzas also advocate open system theory. All living systems are open. Open systems, liked closed, undergo some disorder, breakdown, and loss of energy but they are able to counteract by taking in more energy, by exchanges with the environment, than they lose. They are able to rebuild, repair and restore and not only are better able to avoid increases in entropy but also may better develop states of increased order and organization.

After recognizing the classic, scientific management, and human relations schools of theory, Gilman writes of the systems concept which treats the enterprise as an extended open system. This conceptual


27Ibid., p. 453.

28Ibid., p. 453.

scheme is the only one that permits adequate representation of the complex interrelationships within a contemporary enterprise and simultaneously permits effective use of modern analytical tools for analysis and, according to Gilman, it comes closer to the legitimizing quantification of the nonquantifiable than do other concepts.  

Gilman looks at "... the firm as the central agency of an extended system, which encompasses a peripheral membership that interacts with, supports, and constrains the agency and its central membership."  

While there have been several studies which are related to portions of this investigation, none of these studies entails the comprehensiveness of the theory involved here. Three of the more relevant studies are summarized in the paragraphs below.

James Dent reports on a survey of 145 executives in three cities in an effort to determine the goals of business managements. The goals most often mentioned were profits, public service in the form of good products, and employee welfare. Other goals were indicated as being of importance—growth, efficiency, and ability to meet competition. The data suggested that the size of the business, presence of a labor union, and proportion of white collar workers were factors which affected the goal orientations of managers.

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31 Ibid., p. 27.

Arthur Lorig surveyed approximately 150 executives in regard to whom they felt most responsible—stockholders, employees, creditors, or society. Stockholders received 128 first place votes of 152 responses, employees 16 of 142, creditors 14 of 124, and society 3 of 125. Customers was a write-in vote and received 6 first place ballots out of 34 write-ins. Other write-ins such as suppliers and government were few and none were ranked first.\textsuperscript{33}

Another writing pertaining to this study is by E. R. Magruder. In the development of a management philosophy the author concluded that objectives were the common factor in management thought. In making decisions based on objectives important guides are quality, quantity, and time. The study is pertinent because the author supports the contention that human needs are the starting point of a business and that such needs ultimately determine objectives. He does not, however, consider the roles of value, utility, authority and responsibility, and other significant components of the theory of formal organization investigated in this paper.\textsuperscript{34}

**Summary**

Formal organizations are increasing in number and are an important part of current American life. To date no one comprehensive theory of formal organization has been generally accepted. Indeed, there are apparently an unlimited number of organization theories—those which


\textsuperscript{34}Eugene R. Magruder, "Management by Objectives: A Philosophy," (unpublished doctoral dissertation, The Ohio State University, Columbus, Ohio, 1958).
are seemingly classified into an equal number of schools of thought. In broad terms it appears that theory evolved from the scientific management, workers-as-automatons school into the human relations school in which social interactions were the key factors in affecting output and then into the contemporary open system approach in which the organization, as a transformer of energy, is significantly affected by agencies external to the enterprise.

Studies on organization theory exist, but they are studies only of small parts of the organization; and few have been concerned with the business practitioner who must translate the theory into action.
CHAPTER II

A THEORY OF FORMAL ORGANIZATION: A CONDENSED VERSION FOR STUDY AND ANALYSIS

To what extent does a sample of top managers indicate agreement with basic aspects of a specific theory of formal organization developed by Dr. Robert D. Hay? To answer this question it is necessary to understand the theory and its assumptions.

Over-view of the Hay Theory

An over-view of the theory reveals that the theory is based on the concept that organizations are established to satisfy a variety of human needs. These needs are satisfied through the creation and utilization of goods and services. The creation of a good or service by an organization requires costs of production. These costs plus the utility of the good or service determine the market value of the good or service. It then becomes the objective of an organization to create something of value. This general theory of formal organization relates the objectives of an organization to the personal objectives of humans who wish to have their needs satisfied. A manager's interpretation of objectives reflects his philosophy which, itself, is affected by the external political-legal, economic, social-cultural, and ethical-religious values which he holds.

Once the objectives of the organization are known, then the organization structure can be formulated so as to best achieve the
Objectives are achieved through the performance of managerial and operative work in the line, service, and staff functions. In order to carry out the required work, authority must be delegated and responsibility created. An individual who receives authority is accountable for how appropriately he uses his authority and how well he meets his job responsibilities. If these responsibilities are met and the authority is properly used, then the activities necessary to produce the good or service are performed so that the needs of contributors to the organization are satisfied.

Some Unique Aspects of the Hay Theory

To better understand the more detailed statement of the Hay theory, the reader should be aware of some of the unique aspects of the theory. The Hay theory of formal organization differs from other major theories in several respects. The significant distinctions are outlined in succeeding paragraphs.

The Hay theory places prime emphasis on the satisfaction of human needs as the fundamental purpose of an organization. Other theories do not emphasize human needs as the basis for organization; in fact, other detailed theories have organizational objectives as their starting point. In the Hay theory, objectives are not the first, but the fifth, major element in organization theory development.

The preceding statement suggests another important difference between the Hay theory and others. The Hay theory is comprehensive. Other so-called organization theories, in reality, deal with only a few facets of theory. Compared to the Hay theory, they provide a very narrow and incomplete picture of the organization. Among other things, the Hay theory's uniqueness derives from its eclectic and synthesizing
approach. While providing originality it also ties together into one comprehensive theory the work of other theoreticians.

According to the Hay theory, organizations are established to satisfy human needs. These needs ultimately determine objectives which, in turn, determine the organization structure. Thus, the Hay theory suggests that the structure of the organization is based on the best way to satisfy needs.

Hay's theory of formal organization retains elements of classical theory, e.g., authority is delegated to subordinates by superiors. In addition, it incorporates the newer concept that superiors may also receive some authority from subordinates. Further, the Hay theoretical framework is part of the emerging open system theory. Hay recognizes that the organization affects, and is affected by, not only managers, non-managerial employees, and customers but also by the government and the community. If they were considered at all under older theory, these last two entities were generally considered external forces of little or no importance.

Most contemporary theorists propose that internal organization functions be classified as either line or staff. These theorists state that line functions encompass activities which directly create the qualities the customer desires and that staff functions encompass activities which facilitate the work of the line functions. The Hay theory retains the definition of line function but proposes that staff functions relate to the facilitative activity of advice-giving and that a third type of function be established— the service function. A service function is work which helps the line function through the providing of needed services (other than advice) such as equipment maintenance and
purchasing. Although other theories recognize that both advice and tangible services are required, the Hay theory is the only one which divides them into two types of functions.

Most older organization theories fail to specifically recognize all of the groups contributing to the organization. They will identify customers, employees, and suppliers but seldom any more groups. Newer theories may add owners to the list. The Hay theory proposes that even more groups participate and therefore lists customers, owners, managers, non-managerial employees, suppliers, creditors, government, and the community.

Traditional theories discuss, as factors of production, men, machinery, material, money, markets, and methods. The Hay theory expands the list to include time, space, and information.

Statement of the Theory

To supplement the above over-view of the Hay theory and to show where the distinctive features of the theory are related to the total theoretical framework, it is desirable to present a condensed version of the theory of formal organization.

Human Needs as an Organization's Base

Humans want and need many things. Some of these wants such as food and air are necessary for survival while other wants help to make living more pleasurable. Rarely are a person's needs and wants completely satisfied. In our society organizations are established to

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provide goods and services which satisfy these human desires. People contribute to an organization in the hope of having one or more of these needs satisfied. For example, a person may contribute as an employee because he desires wages to buy food or he may contribute as a customer through the purchase of the food.

One theory about needs was developed by Maslow\(^2\) and it is incorporated in Hay's theory of formal organization. Maslow has classified needs into five types: physiological, security, belongingness, esteem, and self-actualization. These needs are listed in order of importance with the physiological being first in importance. After the physiological needs are adequately supplied, the drive for security provides motivation for the individual. The belongingness need emerges when security is gratified. Esteem follows belongingness and self-actualization becomes predominant when all other needs are met. Attention is now directed to each of these specific needs.

**Physiological Needs**

To survive man requires certain biological inputs—the most apparent are those of food, water and air. If he does not have these needs met, the desire for them becomes the motivating force in his existence and all other needs are virtually unimportant. While the physiological needs must be satisfied if life is to be maintained, they are generally of lesser importance than the higher needs in understanding the behavior of individuals.

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Security Needs

After the physiological needs have been satisfied, the next higher needs—safety—become paramount. This grouping of needs is concerned with physical and mental security. In the United States economy the desire for employee security is seen in various forms of insurance (hospitalization, sickness, accident, unemployment, retirement), jobs with tenure or protection via seniority, and the desire to maintain a degree of financial liquidity. The quest for security is also observed in the preference for an ordered world in which individuals may maintain a relative routine and predictable environment. Routine-oriented businesses act as a popular agent for achieving this sort of need satisfaction for many persons.

Belongingness Needs

This grouping of needs includes those of love and belongingness. They are the social needs and are concerned with the relationships the individual has with other individuals. If the physiological and security requirements of a person are fulfilled, he feels a desire for friends or associates and the companionship provided by a family. The normal individual discovers much satisfaction in associating closely with others and, in fact, very much misses such association if it is not available to him.

Esteem Needs

These needs, like those discussed above, do not influence individual behavior significantly until the lower needs have been mostly
satisfied. Esteem needs refer to the desire for self-confidence, for competency in some fields, for a sense of achievement, for independence, for recognition, status, for a feeling of counting for something in his environment.

Self-Actualization Needs

These needs as set forth by Maslow are of the highest level and are seldom, if ever, fully met. After striving so long and hard to take care of lower level needs the individual often has neither the physical nor the mental energy to pursue the total fulfillment of this top step of the needs hierarchy. This grouping of needs refers to the desire to be creative, to develop one's self, to achieve full realization of the person's potential or, as frequently stated, the self-actualization needs encompass a desire to be what one is capable of becoming.

Need Satisfaction Accomplished by Goods and Services

Individual needs are satisfied by the use of a good or service. An employee receives a good--money--and various services such as a desirable working environment, opportunities for personal relationships, and recreation. Owners may receive goods in the form of dividend checks or in the form of annual reports which provides the service of communications. Other contributors to the organization attain other goods and services.
Reciprocity Between Contributors and the Organization

The organization requires various inputs if it is to survive and grow. These inputs come from various contributors. The contributing groups give something to the organization only if their contributions are in some way reciprocated. A customer will not contribute cash to a store unless that store, in turn, gives him some desired good. Each organization receives benefits (such as cash) but also has to meet the burden of giving a contributor something in return (such as a shirt). The contributor will not enter into this reciprocal exchange unless he feels that the organization will give him goods or services whose benefits are greater than the burdens he must undertake to obtain the gains from the goods and services. The contributor, then, must feel that the organization produces net positive benefits to him. If the contributor did not feel that he would be better off as a result of giving to the organization, there would be not much point in his contributing.

Contributors to an Organization

There are a variety of groups of people who have an interest in the organization and who contribute in some way to its success. The groups are customers, owners, managers, non-managerial employees, suppliers, creditors, government, and the community. Each of these groups gives something to the organization and in return receives some good or service to satisfy its needs.

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Goods and Services Have Utility

Goods and services are desired because they have utility, i.e., they are useful in satisfying a human need or want. In theory utility is classified as primary and facilitative. Primary utility gives form, place, and time utility to the customer. Each of these results from some phase of the production or marketing process and is a utility for which the customer will directly pay.

Facilitative utility is created to help achieve primary utility. Personnel and accounting activities generally facilitate the work of those who are directly concerned with putting the product or service in the right form at the right place and at the right time.

Creation of Value

A good or service which has utility will therefore have some economic value. The value of that good or service results from the utility and the costs of producing it. The most common measure of value is the pricing system of the free market. Since value is a personal, subjective evaluation of utility, a given price may be too high to induce one person to give up his money or effort to obtain the good or service or the price may be considered fair and at a level which leads him into parting with something to obtain the good or service. Overall the price will tend to be at a level to cover all production costs and yet low enough to attract buyers.

Values and Objectives

People desire things which have value to them. Thus, values become goals or objectives for which they work. Objectives are of
two basic types. There are the objectives of the organization itself and the personal objectives of those individuals who contribute in some way to the organization.

Organizational Objectives

Some of the most common goals which may be set for the organization are to provide a service to customers, to make a fair profit, to obtain a desired share of the market, to maintain continuity of the firm, to improve the industry's position, to increase the firm's size, to be a leader in the industry, to have a good image, and to satisfy the personal objectives of all people associated with the firm.

Personal Objectives of Contributors

Customers. Customers want a quality product, a fairly priced product, desired quantities, a product available at the desired time and place, proper service if necessary, and adequate knowledge of the product and the firm's activities. In return for satisfaction of these objectives, the customer will contribute money to the firm.

Owners. Owners want security for and appreciation of their investment, continuity of an adequate return on investment, and adequate information on organizational activities. In return for satisfaction of these objectives, the owners contribute equity capital.

Managers. Managers want to maintain their present position, achieve organizational objectives, achieve organizational efficiency, achieve owner objectives, have opportunity for advancement, be recognized for efforts, either maximize or satisfice or balance profits,
and create a good company image. In return for satisfaction of these objectives, the manager will contribute leadership.

**Employees.** Employees want adequate wages, job security, fringe benefits, reasonable working conditions and work hours, recognition for work done, opportunity for development and advancement, employment of qualified people regardless of race, creed, or color, two-way communications, impartial treatment, and adequate information about organizational activities. In return for satisfaction of these objectives, employees will contribute their work efforts.

**Suppliers.** Suppliers want payment on time for supplied furnished, opportunity to present products to the firm, and adequate information about the organization's present and future activities. In return for satisfaction of these objectives, suppliers contribute various goods and services as supplies.

**Creditors.** Creditors want to receive principal and interest on money when it is due, security on money loaned, and adequate information about organizational activities. In return for satisfaction of these objectives, creditors contribute debt capital.

**Government.** Government wants firms to pay taxes when due, operate in a manner as to meet all governmental requirements, and to supply adequate information about organizational activities. In return for satisfaction of these objectives, government contributes protection and the right to engage in business.
Community. The community wants the organization to be a good citizen, to have civic-minded management and employees, to not allow offensive residue to enter the community, and to provide adequate information about organizational activities. In return for satisfaction of these objectives, the community contributes the environment in which the organization exists.

**Conflict of Needs**

When each contributing group has a multiplicity of objectives which it wishes the central organization to help meet, then it becomes probable that some of the objectives of the contributors will conflict. For example, owners may desire higher dividends at the same time that employees demand higher wages. If it is not possible to fulfill both demands, conflict results and it is top management which must use its judgment in deciding which group's goal will be met. The decision top management makes will be influenced by the managerial philosophy of top management.

**Managerial Philosophy and Objectives**

To a great extent the organization and its objectives reflect the philosophy of the top management. The factors which influence the managerial philosophy, the determination of objectives, and the manner in which these objectives are pursued cover a broad spectrum. The manager's philosophy is affected by the external political-legal, economic, social-cultural, and ethical-religious values which he holds.

Thus, the managerial philosophy affects the managerial thinking about human needs, utility, economic value, and objectives and this
philosophy is affected by a composite of various sets of subjective value systems--mainly legal-political, ethical-religious, economic, and social-cultural.

Figure 1 is a graphic summary of the major facets of the Hay theory which were discussed in the previous paragraphs. Around the perimeter of the drawing is a rectangular line labelled Managerial Philosophy. The managerial philosophy is shown to influence the interpretations the manager places on facts relating to things within the rectangle. Outside the rectangle are the various basic factors which play significant roles in creating the managerial philosophy. The factors (value systems) are economic, political-legal, social-cultural, and ethical-religious.

The Hay theory rests on the concept that organizations exist to satisfy human needs. Thus, at the top of Figure 1 is shown the starting point of the theory--Needs of Contributors. These needs are satisfied by goods and services. Each good or service has a production cost and, presumably, some utility or it would not have been produced. The production cost and the utility are the two major determinants of the economic value (market price) of the good or service. The values that people place on things then become the objectives of the organization. Every organization has the objective of creating something of value.

**Hierarchy of Internal Organizational Objectives**

Over-all organizational objectives are more efficiently attained when the organization has a well-coordinated hierarchy of objectives.
FIGURE 1

PARTIAL SCHEMATIC OF HAY'S THEORY OF FORMAL ORGANIZATION
When a hierarchy of objectives exists, each of the subordinate objectives contributes in some way to the accomplishment of the immediate superior objective in the hierarchy. Ultimately, then, the major organizational objectives may be achieved if all the lower goals are met. Of most importance in this hierarchy are the major objectives for the entire organization. Related but subordinate to the major objectives are the departmental objectives which are established for a major organizational unit. Subordinate to the objectives of the department are those of the group, the work unit, and lastly the individual. While the number and nomenclature of objectives will vary with the organization, the desirability of a hierarchy remains. If these internal objectives are properly conceived and coordinated, then their achievement becomes easier.

**Performance of Functions Achieves Objectives**

If objectives are to be attained, then some work or functions must be carried out. Functions performed in an organization are either of an operative or a managerial nature.

If a person, under supervision, works directly on the making of a good or service, he is performing an operative function. Normally, operative functions are those which directly involve the production and selling of a good or service for another person.

Managerial work involves some aspect of leadership and supervision of others. If an individual is responsible for the functions of others, he is a manager and normally is concerned with the activities of planning, acquiring resources, organizing, actuating people, coordinating, and evaluating others' work in relation to objectives.
Model of Internal Organizational Functions

Organizations sufficiently large to have three levels of management plus one level of operative employees will find managers' and employees' time and energy divided between managerial and operative functions in approximately the proportions as shown in Figure 2.

![Diagram showing proper allocation of time and energy on managerial and operative functions by organizational level](image)

FIGURE 2

PROPER ALLOCATION OF TIME AND ENERGY ON MANAGERIAL AND OPERATIVE FUNCTIONS BY ORGANIZATIONAL LEVEL


Even though a top manager spends most of his time and energy on managerial work, he may occasionally help conclude a sale. In addition to any operative work he performs, there are others who work on the same level and who do operative work, e.g., the manager may well have a secretary who spends most of her time on non-managerial operative work.
At the operative employee level of the organization there will be some managerial activity. Most employees spend some time planning their work, evaluating it, or possibly acquiring materials with which to work.

The higher the level in the organization, the more time and energy a manager should spend on managerial functions and the less time on operative work.  

Managerial work primarily is accomplished through the brain rather than the hands. A manager is both a leader and a supervisor and to fulfill these two roles effectively he must spend time on the managerial functions of planning, acquiring, organizing, actuating, coordinating, and evaluating.

Planning

Planning is the analyzing of relevant information and evaluating future events succeeded by the development of a rational future course of action designed to meet organizational objectives. Although all managers do some planning, the higher in the organization, the more time and energy the manager spends on this activity.

Acquiring

After plans are made, resources must be obtained if the organization is to exist effectively. The resources obtained to achieve the objectives are men, money, materials, machines, methods, markets, minutes, space, and information.  


5Hay, op. cit., p. 27.
As with other managerial activities, all managers spend some effort on acquiring. However, for this activity the top manager probably delegates authority to middle or lower management. For example, normally the acquisition of materials, equipment, and manpower are handled by a purchasing agent and an employment director. In some instances, the top manager may become thoroughly involved in the acquiring of capital or the making of a large sale, but even then he would work closely with a financial manager or sales manager.

Organizing

Organizing is the arranging into a logical, rational relationship the various resources acquired. Physical resources must be laid out within the plant and personnel resources must be organized so that channels of command and communication are established in a way to use most effectively the total resources.

When an organization is being assembled, managers spend considerable time and energy on this activity. However, subsequently, organizing becomes relatively unimportant and is of little concern except to carry out changes resulting from changed objectives.

Actuating

Actuating involves getting people to move willingly toward accomplishing goals. As such it involves motivation, communication, direction, and other aspects of personal leadership. Because more people are located at the lower levels in the organization and because the many lower level people are less likely to see how organizational and
personal goals are compatible, the actuating function is of great importance at lower levels. The amount of time and energy spent on actuating decreases as a manager moves from bottom to top levels. Even top managers spend time actuating as they become involved with relations with owners, government, and the community.

**Coordinating**

Coordinating is the bringing together of the specialized functions and resources so that objectives are met. Persons in an organization tend to lose sight of over-all goals and may undesirably emphasize certain functions at the expense of a harmonious, unified effort.

The more activities for which a manager is responsible, the more coordination is required to have total synchronized action. Thus, upper level managers spend a relatively larger amount of time and energy on coordination than do lower level managers.

**Evaluating**

Evaluating involves the measurement of present and past performance relative to a standard. It is the determination of how well objectives have been achieved. As a result of the comparing of performance against the standard, the necessity for corrective action is ascertained.

Since many more activities are done at the lower levels of the organization than at the upper levels, the evaluating function is more important at the lower level. More time and energy is spent on evaluation at the lower echelons than at the upper.\(^6\)

\(^6\)Hay, *op. cit.*, p. 35.
Correct Allocation for Managerial Functions

If the various managerial levels and the operative employees allocate their time and energy correctly among the six basic managerial functions, the result, if diagrammed, will resemble Figure 3.

![Diagram of managerial functions allocation](image)

**FIGURE 3**

**PROPER ALLOCATION OF TIME AND ENERGY ON MANAGERIAL FUNCTIONS BY MANAGEMENT LEVEL**


Line, Service, and Staff Functions

In addition to classifying organizational functions on the basis of managerial and operative, functions are also classified into line, service, or staff.\(^7\)

Organizations exist to help satisfy human needs and wants through the creation of goods and services having time, place, and form

\(^7\)Hay, *op. cit.*, pp. 96-98.
(primary) utility or having possession and service (facilitative) utility. The first objective of an organization is to create utility for the customer who supplies the revenue out of which other contributing groups are paid. Thus, the functions required to create the revenue-producing utility become the most important ones and are called line functions. Persons participating in line functions create time, place, and form utility. Whether a specific activity is a line function depends upon the particular organization, i.e., in a manufacturing firm the accounting tasks would not be a line function, but they would be in a public accounting firm.

Other internal functions help the line function create time, place, and form utility, i.e., they aid or serve the line and are known as service functions. Service functions are necessary but they do not directly create the utility for which the customer directly pays. For example, in a manufacturing concern accounting serves the line by providing necessary reports. However, the customer directly pays for well-manufactured products and is not concerned with the statistical reports which facilitated the manufacturing process.

A special kind of service which also facilitates the work of the line function is the staff function. Persons engaged in staff functions give advice to line, service, or other staff functions. While it is often necessary, staff work does not directly create customer utility.

People who normally engage in line functions may also occasionally perform service and/or staff functions and vice versa. However, their primary activity usually determines whether they are classified as line, service, or staff workers.
Authority and Responsibility to Perform Functions

As organizations grow it becomes necessary to delegate authority to others in order to carry out functions required to achieve objectives. It is not possible for one manager to perform all operative and managerial functions by himself. When the superior delegates authority, a responsibility is created and the subordinate becomes accountable for his actions in meeting this responsibility.

Delegation Creates Responsibility

Responsibility is the obligation to perform a function. Not only does the delegatee have an obligation to do his best in achieving the assigned objective, but the delegator has the responsibility to check up on the delegatee's progress toward the objective and to help him if necessary.

Authority and Its Sources

Authority is the right to perform a function and is not the same as power. Power may involve coercion which may not be legal. An individual may have authority but no power or vice versa.

Authority emanates from two basic sources. One source is the "top," i.e., the owners who delegate it to the board of directors who redelegate it to the president and so on down through the organization structure. The other source is from the "bottom." The theory supporting this latter source says that authority is not effective unless it has been accepted by subordinates. Consequently, a superior has no authority until his subordinates confer it upon him.

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8Hay, op. cit., p. 100.
The theory of formal organization under investigation recognizes that a good manager must have delegated authority and the acceptance of and cooperation of the subordinates.

Means of Acquiring Authority

There are two basic means of acquiring authority. One is through the position held and the other is through leadership qualities.

Position authority may be subdivided into five types.9

Implied Authority. Implied authority is not explicitly defined but is generally held to belong to the particular position.

Vested Authority. Vested authority is that which has been explicitly conferred on a particular position.

Concurrent Authority. Concurrent authority exists when two or more persons must jointly make decisions with no one person having final authority.

Committee Authority. Committee authority is similar to concurrent but under these conditions decisions do not require concurrence of all committee members before action is approved. Frequently under committee authority a majority vote would determine the action to be followed.

Special Assignment Authority. Special assignment authority is usually given on a temporary basis or until the special assignment or project is completed. While it is normally given to individuals, it also may be appropriately allocated to a committee.

9Manuscript notes of Robert D. Hay.
Personal leadership is another means of acquiring authority. It is acquired through personal influence based on personal qualities, experience, and knowledge. This type of authority is derived from the acceptance of subordinates as contrasted to position authority which derives from the top of the organization. There are three kinds of personal leadership authority.  

**Expertise Authority.** This authority derives from an individual's specific knowledge or expertise in a certain field. The person is recognized as an authority in the field and other persons will defer to his expertise. Expertise authority is often associated with persons holding advisory positions.

**Earned Authority.** This type of authority is derived from long associations with the organization, from a wide experience, and from general knowledge about the organization.

**Assumed Authority.** This authority is acquired when an individual assumes authority which others refuse or abandon. It may be observed frequently in those organizations which have not clearly defined scopes of authority for those involved in the organization.

**Authority and Responsibility Require Accountability**

When authority is delegated and responsibility is created, the delegatee is normally expected to account for how appropriately he has used his authority and how effectively he has met his responsibilities. Accountability is a measurement of how well functions have been performed to achieve objectives. Usually, the delegatee is expected to

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10 Manuscript notes of Robert D. Hay.
report to his superior on his progress toward the objective. Accountability, then, is a form of feedback or measurement.

**Activities Achieve Objectives**

Activities are the mental and physical work performed to achieve the organizational goals. Regardless of the quality of the organization's formal structure, the quality of the human resources, the sufficiency of materials and equipment, certain labor is required if objectives are to be met. If the appropriate managerial and operative activities are not carried out at all levels, the organization will fail.

Figure 4 graphically summarizes the major parts of the Hay theory that relate to the structuring of the organization. The large rectangular line labelled Organization Structure denotes that the items within its bounds are an integral part of the formalized organization structure. The figure shows that to achieve the necessary work functions authority must be delegated and, concurrently, an equal responsibility is created when the delegatee accepts the authority. A recipient of authority is accountable for the proper use of his authority and for the effectiveness of his methods in achieving his assigned responsibilities. The diagram also shows that authority and responsibility are prerequisites to the performance of activities. The dashed line shows that as activities are performed, the performance, in turn, may influence and change other factors in the framework starting with the various functions.
Figure 5 graphically presents a model of the over-all theory under investigation. It is a composite of Figures 3 and 4. The remarks explaining Figures 3 and 4 also apply to Figure 5. In addition, Figure 5 indicates that the performance of activities may bring about changes in functions, objectives, value, production cost or utility, the good or service itself, and, ultimately, the satisfaction of the contributors' needs.
FIGURE 5

SCHEMATIC OF HAY'S THEORY OF FORMAL ORGANIZATION
CHAPTER III

RESEARCH METHODOLOGY

Statement of the Problem

Among academicians or businessmen there is no universally accepted theory of formal organization. Dr. Robert D. Hay proposed a comprehensive theory which appeared to have sufficient validity to gain acceptance among the practitioners of the art and science of management. The problem in this study is to determine what factors of this theory of formal organization are accepted by the business practitioner.

Factors Studied

The previous chapter provided a condensed version of the theory of formal organization. This section of Chapter III will list and briefly describe the factors of the theory which were investigated during this study. One or more interview questions were related to each factor.

Factor One

Need Satisfaction. This factor referred to the assumptions that human beings have certain types of needs which are met through organizations of all kinds and that, basically, organizations are formed to satisfy these needs.
**Factor Two**

**Contributors.** A variety of groups contribute to the organization's success. These include customers, managers, non-managerial employees, owners, suppliers, creditors, government, and the community.

**Factor Three**

**Reciprocity.** Groups contributing to the organizational success make their contributions in exchange for the benefits they receive from or through the organization.

**Factor Four**

**Goods and Services Having Utility.** This factor referred to the belief that the various human needs are satisfied through the creation of utility in the making of a good or service and that there are five types of utility--time, place, form, service, and possession.

**Factor Five**

**Value of Goods and Services.** An organization desires to create a good or service which has economic value, and both utility and cost of production determine that value.

**Factor Six**

**Organizational Objectives.** Organizational objectives are mainly determined by value, and these objectives are interpreted and organized into a hierarchy by the management of the enterprise.
Factor Seven

Personal Objectives. Each group which contributes to the organizational well-being does so in anticipation of having a variety of personal objectives achieved.

Factor Eight

Managerial Philosophy. The philosophy of each manager affects how he perceives and acts upon human need satisfaction, utility creation, organizational objectives, and other facets of the organization. This managerial philosophy is primarily composed of several broad sets of value systems which include economic, ethical-religious, political-legal, and social-cultural values.

Factor Nine

Internal Organizational Functions. Within the organization structure, the objectives to be achieved determine the functions which are performed. Organizational functions may be analyzed on the basis of whether they are line, service, or staff functions or whether they are functions performed by managers or operative employees.

Factor Ten

Authority and Responsibility. Authority is the right to perform a function and responsibility is the obligation a delegatee has to carry out that performance. Authority comes to the individual from his superior or, in some cases, from his subordinates because of his own leadership capabilities.
Factor Eleven

Accountability. Each person who has authority is accountable for how well he uses his authority and how effectively he has met his responsibilities. Normally, the individual should report on his progress. This report may be in a variety of forms.

Factor Twelve

Activity Achievement. Activities of individuals within the organization who carry out their responsibilities should result in the satisfaction of human needs.

Factor Thirteen

Graphic Model of the Hay Theory. A person agreeing with most of the points set forth in the theory investigated should be able to choose from three diagrams, that diagram which most closely resembles an outline of the Hay theory.

Method of Data Collection

To secure the information desired, personal interviews were held with twenty top managers. There were six main reasons for choosing the interview technique of data collection.

1. There was an expectation that the total number of questions, some of which questions were abstract, would not be answered in mail questionnaire form.

2. By personally interviewing managers any necessary clarification of questions could be more easily achieved. In the actual interviewing process, however, there were few occasions in which the interviewee in any way indicated that clarification was needed.
3. Another major consideration in the decision to use interviews was that personal contact permitted the opportunities to request clarification of the manager's statements and, of more importance, to explore further the reasons supporting some of the statements.

4. Also of some influence in choosing the interviewing technique was the potential of person-to-person communication and an anticipated increased willingness of managers to reveal true feelings rather than write an "acceptable" answer on a questionnaire. In reality, this view was fully justified as the managers made frequent off-the-record comments about their own business plans and about fellow businessmen.

5. Personal interviews would assure that questions were answered by top managers and not, as might be the case with mailed questionnaires, by some assistant or lower level executive.

6. In general, the personal interview approach was used because it appeared better suited than a mail questionnaire to obtain the qualitative type of information required in this study.

Disadvantages of personal interviews included minor points such as problems in scheduling of interviews and verbal rambling by the interviewees which was difficult to curtail without seeming discourteous.

Interview length might appear to be a problem but, in fact, was not. Initial interviews showed that all points could be adequately covered in two hours. Consequently, managers were asked for a two hour time block and also were advised that the interviewer was available for a longer period. The interviews ranged from two to five hours in length. In every instance the managers showed a complete
lack of concern about time, and they stated a willingness to elaborate on points if the interviewer so desired.

Another hazard of interviewing was the possibility of influencing the choice of answer through varying tones of voice, different inflections, and changing speech patterns from one interview to the next. It appears extremely difficult, if not impossible, to guarantee that such will not occur. In this study the interviewer was aware of the potential obstacle and therefore tried to avoid leading a respondent. Perhaps the best preventative was the interviewees themselves. Each of these top executives plainly showed a mind of his own—a mind that did not appear likely to believe one thing but say another just to be amiable.

Prior to interviewing the managers, the interview guide was constructed and continually revised to achieve conciseness and clarity and objectivity. Ultimately, the interview guide was tested by giving it to 61 business students and 50 non-business students. The business students were also retested. The purpose of this test was to determine the extent others could understand the questions (the students were asked to circle or otherwise note unclear words, phrases, or questions) and, incidentally, to determine if responses of the business and non-business students would differ.

The non-business students indicated that over-all the questions were understandable. Exceptions revolved around terms such as line, service, and staff departments and the meaning of managerial functions such as organizing, coordinating, and actuating. The business students showed no inability to understand the questions.

The response to the questions revealed that with only two exceptions a higher percentage of the business students than the non-business
students gave responses compatible with the organization theory studied.

One exception was the question concerning the fundamental purpose of an organization. Forty-eight percent of the non-business students said "to satisfy human needs" while only 29 percent of the business students agreed with that choice. The other exception dealt with progress reports to a superior. In this instance the business students were probably influenced by course material recently covered.

A subsequent retesting of the business students found their answers to be generally consistent with the first test. The answers changed only two or three percent and these changes were toward answers consistent with the theory studied.

**The Sample**

Because the Hay theory is considered to be universally applicable, some degree of variety in the sample was sought. Consequently, the sample was divided equally between large and medium size organizations. For profit-making firms the sample was divided equally between managers who had an ownership interest and managers who had no significant ownership. Owner managers of non-profit organizations were not available and, in any case, would constitute rare exceptions.

To further obtain variety in the sample, firms were selected so as to obtain four managers in each of five different types of industry important to the American economy: finance, retailing, manufacturing, service, and non-profit. It was felt that five industry categories, broadly defined, would provide considerable breadth and, concurrently, provide some added basis for analyzing results.
Lastly, the firms were selected to assure that some businesses were chosen that engaged primarily in local activities, some that operate primarily on a statewide basis and some which operate on a multi-state basis.

Figure 6 indicates the specific field of business activity of each organization where a manager was interviewed during this study.

Description of Firms

The managers who were interviewed were told that neither they nor their organizations would be identified by name. However, so that the responses of the managers may be understood better by placing them in their appropriate environment, a description of each organization is presented. To avoid the possibility of identification of the manager or the organization, the descriptions are as short as possible but still provide individual reference points.

Finance

Large Size

Owner Manager. A rapidly growing finance organization with assets of approximately $100 million. Its main business is in small consumer loans.

Professional Manager. A full-service national bank established in 1936 with assets now over $160 million.

Medium Size

Owner Manager. Investment bank and brokerage house with several offices. Members of the major stock exchanges.

Professional Manager. A relatively young federal savings and loan association established not only to provide a service to the community but to provide an occupation for the founders.
<table>
<thead>
<tr>
<th>Large Size Organizations</th>
<th>Medium Size Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owner Manager</strong></td>
<td><strong>Professional Manager</strong></td>
</tr>
<tr>
<td>Finance</td>
<td>Small Loan</td>
</tr>
<tr>
<td>Retailing</td>
<td>Grocery Stores</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Steel</td>
</tr>
<tr>
<td>Service</td>
<td>Laundry and Dry Cleaning</td>
</tr>
<tr>
<td>Non-Profit</td>
<td>Government Corporation</td>
</tr>
</tbody>
</table>

**FIGURE 6**

TYPE OF MANAGER INTERVIEWED BY SPECIFIC TYPE OF BUSINESS
Retailing

Large Size

Owner Manager. Grocery chain with annual sales in excess of $300 million.

Professional Manager. Department store chain of ten units with rapidly growing sales of approximately $100 million.

Medium Size

Owner Manager. Long established department store with one suburban branch.

Professional Manager. Chain of women's clothing stores consisting of 18 units.

Manufacturing

Large Size

Owner Manager. Steel company with 17 units in three states. Sales of over $40 million.

Professional Managers. Carpet manufacturer with eight manufacturing facilities in the south and southwest.

Medium Size

Owner Manager. Young and rapidly growing developer and manufacturer of equipment used in aerospace and communication fields.

Professional Manager. Independent producer of storage batteries in a variety of sizes.

Service

Large Size

Owner Manager. Owner, operator, and franchiser of a laundry and dry cleaning chain.
Professional Manager. Large nation-wide hotel chain which also has facilities overseas.

Medium Size

Owner Manager. Old family-run business providing printing and engraving services and dictation and paper record transcribing services.

Professional Manager. AM and FM radio stations and a television station.

Non-Profit

Large Size

Professional Manager. Independent corporation of the U. S. Government which provides flood control and electricity for a large section of the mid-south region.

Professional Manager. Large city-owned hospital of a metropolitan area of over a half-million population.

Medium Size

Professional Manager. New church-sponsored retirement home with small attached hospital.

Professional Manager. Predominantly volunteer organization which promotes character development among boys and young men.

Definition of Terms

Throughout the report on the study several terms are used which should be defined if the results are to be understood. There are no universally accepted definitions of these terms. Although they have elements of commonality with other definitions, the interviewer's definitions apply only to this study.
Top Manager

A top manager is any officer who has broad decision-making powers which may influence the entire organization. In most corporations sampled, top managers were presidents and vice presidents. In non-profit organizations the top managers had the titles of director and of administrator.

Owner Manager

Owner managers are those persons who have a substantial financial interest in the business. Although no percent of control or dollar amounts were established, the owner managers either had controlling interest or were major members of a group which had control.

Professional Manager

A professional manager is one whose primary remuneration is in the form of salary and who owns an insignificant portion of the firm if, in fact, he owns any part of it.

Medium Size Organization

Medium size refers to those organizations which have three levels of managerial personnel.

Large Size Organization

Large size organizations are those having four or more levels of managerial personnel.

Limitations to the Study

There are three general limitations to the study. The material in this investigation is of a highly subjective nature. The interviewees
were asked their views about a theory and not questions which could be answered with an objective, fact-filled response. The interviewees' answers reflect the opinions they held at the time of the interview and, as opinions, they may well change. Further, to some extent the meaning of the managerial opinions were given a subjective evaluation by the interviewer. The interpretation of managerial opinion was based not only on what was said but partially on what was unsaid. Since this was a study into managerial opinions, the results do not readily lend themselves to quantification.

This is not a statistical study. The sample was twenty managers each from a different organization. The sample size and the qualitative data obtained are not compatible with statistical analysis.

The sample is not random. It is, essentially, a convenience sample. The interviewees were located within a 300-mile drive from the interviewer. Although each manager who was contacted agreed to an interview, it is probable that a larger sample would have elicited some refusals. It is possible that the opinions of those refusing would have been different from those managers who so readily cooperated. Consequently, the conclusions in this study are based on a limited sample and may not necessarily be true for the universe.

Preview of Analysis

Each factor of the theory was studied through one or more questions on the interview guide. Answers to the questions were categorized, if logically possible, into the alternative answer categories provided on the interview guide. Responses have been totaled and will
be presented factor by factor, by type of business, by kind of manager, i.e., owner or professional, and by size of organization structure.

The general format is a brief statement of the theory studied under a given factor, the actual question pertaining to that portion of the theory, a table summarizing the answers to the question, and a discussion of those responses.

Chapter IV is an analysis of top managers' responses to factors concerned with that portion of the theory directly affected by managerial philosophy.

Chapter V is an analysis of responses to questions dealing with that part of the organization theory primarily concerned with the structure of the organization.

Chapter VI provides a brief summary of the study and the conclusions drawn from the data.
CHAPTER IV

TOP MANAGERS’ RESPONSES TO QUESTIONS INVOLVING MANAGERIAL PHILOSOPHY

This chapter reports the interview results on the theory factors involving managerial philosophy. The manager's perception of these factors and his decisions relative to them may be influenced significantly by his philosophy. There are eight factors reported in this chapter and they are Need Satisfaction, Contributors, Reciprocity, Goods and Services Having Utility, Value of Goods and Services, Organizational Objectives, Personal Objectives, and Managerial Philosophy.

Factor One

Need Satisfaction

Theory Statement

Human beings have many needs and wants—some of which are required for survival and some only to make life comfortable. In fact, these human desires are never totally satisfied. In Western civilization organizations are formed to help provide the tangible and intangible goods and services which satisfy desires. While some of the organizations are quite informal and very temporary, many are formally organized for permanency. All organizations are established in an attempt to satisfy a human need or want.
Question 1 A

According to your philosophy, what is the most fundamental reason for the existence of any organization?

______ To improve efficiency
______ To satisfy human needs
______ To make a profit
______ To fulfill a desire to achieve personal objectives
______ Other ________________________________________________________

The theory of formal organization under discussion is based on the concept that organizations are created to meet one or more of the human needs. If managers agreed with this idea then it appears likely that "to satisfy human needs" would be the answer to this first question. Interview results are in Table 1.

The interviews indicated that thirteen of the twenty top managers agreed with the needs approach with six of the interviewees stating that "to make a profit" is the fundamental reason for the organization and one person saying "to meet personal objectives of owners." Out of sixteen profit-making businesses, nine managers decided for human needs and six for profit. However, all four of the non-profit managers readily stated human need satisfaction as their basis for organization.

In the division between owner managers and professional managers, the choice was four and nine respectively on the human needs alternative. Thus, only fifty percent of the owner managers admit to being oriented to the idea of human needs as being the starting point for the profit for which all eight owners expressed a desire.

Of those managers who picked profit as the fundamental purpose, fifty percent were owner managers and fifty percent were professional managers.
<table>
<thead>
<tr>
<th>Reason</th>
<th>Type of Organization</th>
<th>Type of Manager</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance Retail Mfg. Service Non-Profit Total</td>
<td>Owner Professional Total</td>
<td>Large Medium Total</td>
</tr>
<tr>
<td>Satisfy Human Needs</td>
<td>2 2 3 2 4 13</td>
<td>4 9 13</td>
<td>7 6 13</td>
</tr>
<tr>
<td>Make A Profit</td>
<td>2 2 2 6 3 3 6</td>
<td>3 3 6</td>
<td>3 3 6</td>
</tr>
<tr>
<td>Achieve Personal Objectives</td>
<td>1 1 1 1 1</td>
<td>1 1 1</td>
<td>1 1 1</td>
</tr>
<tr>
<td>Improve Efficiency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4 4 4 4 4 20</td>
<td>8 12 20</td>
<td>10 10 20</td>
</tr>
</tbody>
</table>
In respect to managers of large and medium size organizations, the vote was seven and six, respectively, on human needs and three and three on profit. The manager who chose "to meet personal objectives of owners" was an owner of a medium size firm.

Although six managers emphasized that profit is the organization's purpose, several of these men also noted that giving the customer what he wants is the way to generate that profit. However, their responses and their manner generally indicated that in their minds need satisfaction comes after profit. One manager of a service business said, "Businesses are organized to make a profit. Someone doesn't decide to satisfy a need and ascertain if a profit is possible. Profit is the goal but you've got to give the customer a service—that he wants—if you are to earn that profit."

**Theory Statement**

The theory of formal organization accepts the Maslow view that human needs may be grouped into the five categories of physiological, security, love, esteem, and self-actualization. Further, it is assumed that most persons have these needs.

**Question 1 B**

Which of the following alternatives best describes the variety of needs most people normally have?

- Job security, economic security, physiological needs, acceptance by others, love
- Physiological needs, recognition for ideas, continuing personal development, a favorable public image, acceptance by others
- Need for personal friendships, a feeling of being wanted and of being helpful to others, a sense of acceptance by associates, physiological needs
<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Manager</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Retail</td>
<td>Owner</td>
</tr>
<tr>
<td>Mfg.</td>
<td>Service</td>
<td>Professional</td>
</tr>
<tr>
<td>Service</td>
<td>Non-Profit</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Group 4--All Needs Listed**

4 4 3 4 2 17 8 9 17 8 9 17

**Group 3--Lacking Security, Esteem, and Self-Actualization**

1 1 1 1 1 1 1

**Group 1--Lacking Esteem and Self-Actualization**

**Group 2--Lacking Security**

Total

4 4 4 4 2 18 8 10 18 9 9 18
Physiological needs, opportunities for personal development, a feeling of pride in accomplishments, security, acceptance by others

One of the points covered in each interview concerned the Maslow hierarchy of needs. The managers were asked to choose among four groups of needs that group which listed the variety of needs people generally have. While each group contained five items, only one had an example of each of the five needs as described by Maslow.

Eighteen managers answered this question. Two non-profit managers said all the needs were valid and they could not pick a single group. With only one exception, all eighteen managers chose the correct group. The exception was one of the three managers who was familiar with Maslow's work. Further, the manager was a professional manager in a large size manufacturing business.

Sometimes the right choice was made through the process of elimination, i.e., there was something the respondent did not like about the other alternatives, and sometimes the correct list was picked because it did seem to have the greatest variety although little thought seemed to be given as to whether the list was truly representative of the spectrum of human needs.

Theory Statement

The theory of formal organization follows the idea that the physiological, security, love (social), esteem, and self-actualization needs, in that order, normally have to be reasonably gratified before the next higher need plays a significant motivating role.
Question 1 C

Please rank the following needs with #1 being the need which must be satisfied first, #2 satisfied second, etc.

_____ Physiological—clothing, water, etc.
_____ Esteem—recognition for ideas, etc.
_____ Self-Actualization—chance to become what you are capable of becoming, etc.
_____ Security—insurance, cash, etc.
_____ Social—desire to be accepted by fellow man, etc.

Each interviewee was asked to rank the five Maslow needs. These rankings are shown in Table 3. Values were derived from the resulting rankings by giving a rank of one a weight of one, a rank of two a weight of two, and so on. Thus, ideally physiological needs would have a value of one, security a value of two, social a value of three, esteem a value of four, and self-actualization a value of five.

For all twenty managers the values of each type of need were physiological, 1.20; security, 2.60; social 3.35; esteem, 3.40; self-actualization, 4.35. According to these values, the managers were, as a group, able to rank correctly the five needs in the order of their importance.

The resulting ranking values by industry category were:

Finance—physiological, 2.00; esteem, 2.75; security, 3.00; self-actualization, 3.50; social, 3.75.

Retail—physiological, 1.00; security, 2.25; social, 3.50; esteem, 3.75; self-actualization, 4.50.

Manufacturing—physiological, 1.00; security, 2.00; social, 3.25; esteem, 3.50; self-actualization, 4.50.

Service—physiological, 1.00; security, 2.00; social, 3.50; esteem, 3.75; self-actualization, 4.50.
### TABLE 3

DEED HIERARCHY RANKINGS

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Finance</th>
<th>Retail</th>
<th>Mfg.</th>
<th>Service</th>
<th>Non-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physiological</td>
<td>5 1 1 1</td>
<td>1 1 1 1</td>
<td>1 1 1 1</td>
<td>1 1 1 1</td>
<td>1 1 1 1</td>
</tr>
<tr>
<td>Esteem</td>
<td>2 2 3 4</td>
<td>3 4 4 4</td>
<td>4 4 3 3</td>
<td>4 4 4 3</td>
<td>3 4 4 2</td>
</tr>
<tr>
<td>Self-Actualization</td>
<td>1 5 5 3</td>
<td>5 5 3 5</td>
<td>5 5 5 5</td>
<td>5 4 5 4</td>
<td>4 5 5 3</td>
</tr>
<tr>
<td>Security</td>
<td>4 4 2 2</td>
<td>2 2 2 3</td>
<td>2 2 2 2</td>
<td>2 2 2 2</td>
<td>5 2 3 5</td>
</tr>
<tr>
<td>Social</td>
<td>3 3 4 5</td>
<td>4 3 5 2</td>
<td>3 3 3 4</td>
<td>3 3 3 5</td>
<td>2 3 2 4</td>
</tr>
</tbody>
</table>

*In each of the five industry categories the odd numbers indicate owner managers and even numbers indicate the professional managers. The first two numbers in each category are the large organizations and the second two numbers are the medium size organizations.*
Non-Profit—physiological, 1.00; social, 2.75; esteem, 3.25; security, 3.75; self-actualization, 4.25.

Values were also determined for rankings by owner managers and professional managers. The values for owner managers were physiological, 1.50; security, 2.25; esteem, 3.37; social, 3.50; self-actualization, 4.25. The owner managers, then, reversed the usual order of social and esteem needs. However, there was only a .13 difference between the social and esteem values. In the over-all values for all twenty managers there was only a .05 difference between the social and esteem needs; but, of course, the over-all values had the needs in their correct order.

The values for the rankings of the professional managers were physiological, 1.00; security, 2.83; social, 3.25; esteem, 3.41; self-actualization, 4.41. The professional managers ranked the needs correctly but, again, with a small difference in values between social and esteem.

The rankings were further studied on the basis of large and medium size organizations. The values for rankings by managers of large organizations were physiological, 1.40; security, 2.70; social, 3.00; esteem, 3.40; self-actualization, 4.40. The ranking was accurate which was not the case with the medium size organization managers.

Values for medium size organization managers were physiological, 1.00; security, 2.50; esteem, 3.40; social, 3.70; self-actualization, 4.30. These managers put esteem needs ahead of social.

Although not always reflected in the rankings they gave, some managers commented that security was moving up in importance and they
lamented this situation. Other managers made the point that a needs ranking for all humans was quite difficult since the importance of a certain need was dependent upon the individual. Another view was that needs were related to the person's position in the economic or business structure. Those interviewees who took this approach indicated that often the needs of managers were different from employees.

In summation, the owner managers and the managers of medium size enterprises ranked esteem needs before social needs, but were correct in all other respects. Managers of large organizations, professional managers, and the total of all managers ranked the needs correctly according to Maslow.

Factor Two
Contributors

Theory Statement

An organization survives and grows because it has a variety of persons contributing to its welfare. Normally, those contributing to the organization are customers, managers, employees, suppliers, creditors (money lenders), owners, community-at-large, and government. Each of these groups gives something to the organization and should be recognized as a contributor by the business manager.

Question 2 A

Check the groups which contribute to the organization; and OF THOSE YOU CHECKED, please rank them in order of importance to the organization's success.

<table>
<thead>
<tr>
<th>Check</th>
<th>Rank</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Suppliers</td>
</tr>
</tbody>
</table>
TABLE 4
RANKINGS OF CONTRIBUTORS
BY TYPE OF ORGANIZATION

<table>
<thead>
<tr>
<th></th>
<th>Finance</th>
<th>Retail^a</th>
<th>Mfg.^a</th>
<th>Service</th>
<th>Non-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2^c</td>
</tr>
<tr>
<td>Management</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Employees</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2^c</td>
</tr>
<tr>
<td>Community</td>
<td>4</td>
<td>7</td>
<td>5</td>
<td>5^b</td>
<td>7</td>
</tr>
<tr>
<td>Suppliers</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>5^b</td>
<td>5</td>
</tr>
<tr>
<td>Owners</td>
<td>6</td>
<td>4</td>
<td>6</td>
<td>4</td>
<td>2^c</td>
</tr>
<tr>
<td>Creditors</td>
<td>7</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Government</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

^aRanking done by three managers.

^bThe derived values for suppliers and community were identical. Refer to Table 5.

^cThe derived values for employees, owners, and customers were identical. Refer to Table 5.

Comments by the interviewees indicated that they believed ranking these groups was a difficult task because most, or all, of the contributing groups were vital. Since each was necessary it was misleading to rank one group below any other group. Two managers did not rank
the groups. The other eighteen determined some rank ordering although each did not rank every contributing group.

Managers were generally quick to rank their top three choices—which usually included customers, management, and employees. The subsequent rankings required more time to accomplish and there was doubt in their minds about the accuracy of the rankings.

If a contributing group was ranked first by a manager, that vote was given a weight of one; if it were ranked second by a manager that vote was given a weight of two; if ranked third a weight of three was given and so on for each rank. Values were determined by dividing total weights by the number of managers voting in that category. The resulting values are listed in Table 5.

Three of the five industry categories ranked customers as the most important group. Two categories ranked customers second. All categories ranked customers, management, and employees among their three most important contributing groups.

Government was ranked the lowest in all industry categories. Most managers were emphatic about placing it last. While, after some discussion, the managers stated the government provided a few things such as physical protection, generally it constituted a hindrance both in being able to carry out logical activities, but also as a user of valuable time because of interminable data collection.

Suppliers was considered to be the fifth most important group by four of the industry categories. Creditors, owners, and community-at-large were generally ranked in the fourth, sixth, and seventh positions.
TABLE 5
WEIGHTED VALUES AS BASIS FOR
RANKING OF CONTRIBUTORS

<table>
<thead>
<tr>
<th></th>
<th>Finance</th>
<th>Retail</th>
<th>Mfg.</th>
<th>Service</th>
<th>Non-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>1.25</td>
<td>1.33</td>
<td>1.67</td>
<td>2.50</td>
<td>3.00</td>
</tr>
<tr>
<td>Management</td>
<td>2.00</td>
<td>2.67</td>
<td>2.00</td>
<td>2.00</td>
<td>1.75</td>
</tr>
<tr>
<td>Employees</td>
<td>3.25</td>
<td>2.33</td>
<td>3.00</td>
<td>2.75</td>
<td>3.00</td>
</tr>
<tr>
<td>Community</td>
<td>4.50</td>
<td>7.00</td>
<td>5.33</td>
<td>5.33</td>
<td>6.50</td>
</tr>
<tr>
<td>Suppliers</td>
<td>5.00</td>
<td>4.67</td>
<td>5.00</td>
<td>5.33</td>
<td>5.25</td>
</tr>
<tr>
<td>Owners</td>
<td>5.50</td>
<td>4.33</td>
<td>5.67</td>
<td>3.67</td>
<td>3.00</td>
</tr>
<tr>
<td>Creditors</td>
<td>6.00</td>
<td>5.33</td>
<td>7.00</td>
<td>6.33</td>
<td>5.33</td>
</tr>
<tr>
<td>Government</td>
<td>7.67</td>
<td>8.00</td>
<td>8.00</td>
<td>8.00</td>
<td>7.50</td>
</tr>
</tbody>
</table>

When rankings by owner managers and professional managers were made, the rankings were identical for four groups—employees, owners, suppliers, and government which were ranked third, fourth, fifth and eighth respectively. The other groups were closely ranked. Management was put second by owner managers while professionals placed it first. Creditors were sixth on the scale of the owner managers and seventh on that of professionals. The community-at-large was seventh and sixth, respectively, by the ordering of owner managers and professional managers. Lastly, customers headed the list of owner managers but were placed second by the other managerial group. The rankings and values for these two managerial classes are shown in Table 6.
<table>
<thead>
<tr>
<th></th>
<th>Owner Managers</th>
<th>Professional Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank</td>
<td>Value</td>
</tr>
<tr>
<td>Customers</td>
<td>1</td>
<td>1.56</td>
</tr>
<tr>
<td>Management</td>
<td>2</td>
<td>2.28</td>
</tr>
<tr>
<td>Employees</td>
<td>3</td>
<td>2.83</td>
</tr>
<tr>
<td>Owners</td>
<td>4</td>
<td>4.28</td>
</tr>
<tr>
<td>Suppliers</td>
<td>5</td>
<td>4.80</td>
</tr>
<tr>
<td>Creditors</td>
<td>6</td>
<td>5.50</td>
</tr>
<tr>
<td>Community</td>
<td>7</td>
<td>6.16</td>
</tr>
<tr>
<td>Government</td>
<td>8</td>
<td>7.83</td>
</tr>
</tbody>
</table>

In comparing the rankings by large and medium size organization managers, there is agreement on the rankings of employees, owners, and government which were third, fourth, and eighth respectively. Even though customers had a derived value of 2.00 in rankings in both rankings in both groups, they were ranked second by large organization managers and first by medium size organization managers. The rankings and values on the basis of organization size are in Table 7.
TABLE 7
RANKINGS AND VALUES OF CONTRIBUTORS
BY ORGANIZATION SIZE

<table>
<thead>
<tr>
<th></th>
<th>Managers of Large Organizations</th>
<th>Managers of Medium Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank</td>
<td>Value</td>
</tr>
<tr>
<td>Management</td>
<td>1</td>
<td>1.63</td>
</tr>
<tr>
<td>Customers</td>
<td>2</td>
<td>2.00</td>
</tr>
<tr>
<td>Employees</td>
<td>3</td>
<td>2.75</td>
</tr>
<tr>
<td>Suppliers</td>
<td>4</td>
<td>4.63</td>
</tr>
<tr>
<td>Owners</td>
<td>4</td>
<td>4.63</td>
</tr>
<tr>
<td>Creditors</td>
<td>6</td>
<td>5.63</td>
</tr>
<tr>
<td>Community</td>
<td>7</td>
<td>6.88</td>
</tr>
<tr>
<td>Government</td>
<td>8</td>
<td>7.79</td>
</tr>
</tbody>
</table>

The over-all rankings and values of the contributors by the eighteen managers who responded were: first, customers at 2.00; second, management at 2.06; third, employees at 2.88; fourth, owners at 4.33; fifth, suppliers at 5.06; sixth, community-at-large at 5.63; seventh, creditors at 5.67; eighth, government at 7.79.

Factor Three
Reciprocity

Theory Statement
People are willing to contribute to an organization as an employee, supplier, customer, et cetera if they believe they will gain
by contributing. Somehow they must feel they will be better off (get a larger return) for having participated in the organization's life. If they were not better off, people would have no reason to contribute and, in fact, would not do so.

**Question 3 A**

People who contribute to my organization feel they get

___ more back from the organization than they put in.
___ less from the organization than they contribute.
___ about the same amount of benefits back from the organization as they put in.
___ People do not contribute in exchange for benefits they receive.
___ Other ________________________________

Most of the managers said that persons who contribute to an organization receive back about the same amount as they put into the enterprise. Eleven managers took the above position while nine others said that contributors get back more. Manufacturing was the only category in which all managers agreed and, in this instance, they felt that there was an equivalent exchange between contributor and organization. Even though they said that an equivalent exchange existed, some comments were made that some employees undoubtedly felt they got less than they should while others received more. This "more" frequently was obtained in the form of mental satisfaction through a sense of accomplishment and social interaction as opposed to tangible material things.

Six of the eight owner managers felt that the contributors got back an amount equivalent to their contribution while only five of the twelve professional managers so indicated.
Table 8

Return to Contributors for Their Contributions

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Manager</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Owner</td>
<td>Large</td>
</tr>
<tr>
<td>Retail</td>
<td>Prof.</td>
<td>Medium</td>
</tr>
<tr>
<td>Mfg. Service</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>Non-Profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Same</td>
<td>2 6</td>
<td>6</td>
</tr>
<tr>
<td>More Back</td>
<td>2 2 9</td>
<td>5</td>
</tr>
<tr>
<td>Less Back</td>
<td>2 2 2 3</td>
<td>5</td>
</tr>
<tr>
<td>Do Not Exchange For</td>
<td>2 7 9</td>
<td>9</td>
</tr>
<tr>
<td>Benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4 8 12 20</td>
<td>10 10 20</td>
</tr>
</tbody>
</table>

Of the ten managers in large size organizations, four felt the contributors got back more and six felt there was a balanced exchange. In the medium size enterprises the count was five for "more" and five for "same."

Among the managers there was some feeling that some persons outside the organization, viz., suppliers and creditors, got back an amount equal to what they put in since the purchasing organization could not survive if it paid more than necessary. On the other hand, persons within the organization, viz., management, employees, and owners, could obtain various degrees of psychological satisfaction over and above their fair dollar return. Since psychological satisfaction does not directly cost money, the enterprise can well afford it.
Factor Four  
Goods and Services Having Utility  

Theory Statement

Needs and wants are satisfied through the process of creating and/or using a good or service. Since they do satisfy needs, goods and services have utility (usefulness) to the contributor to the organization who is giving of his money, effort, supplies, et cetera in exchange for this utility. Many persons may contribute to the organization primarily to earn money (which is considered a good in this theory) so they may buy goods and services from other organizations.

Question 4 A

People's needs are satisfied by the

_____ good and/or service providing psychological satisfaction
_____ creation of a good and/or service having utility (usefulness)
_____ creation of a good having utility
_____ creation of a service having utility
_____ creation of a good and/or service
_____ other __________________________

The finance managers split evenly between the two statements that needs are satisfied by providing psychological satisfaction and by utility. Two managers said that inasmuch as so many products appear to have no usefulness whatsoever, their value must derive from abilities to satisfy the mind. Two of the finance men pointed out that some things such as a painting would have little material ability but would provide psychological satisfaction while a hospital bed for a patient in a coma would be utilitarian in the purest sense but would give no mental satisfaction to the person using the bed.
### TABLE 9

ACCOMPLISHMENT OF NEED SATISFACTION

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail</td>
</tr>
<tr>
<td>Good or Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Having Utility</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>
| Provision of Psychologi
cal Satisfaction | 2       | 2^a    | 2    |         | 4^a        | 10    | 2     | 8            | 10    | 4     | 6      | 10    |
| Good Having Utility   |         |        |      |         |           |       |       |              |       |       |        |       |
| Service Having Utility|        |        |      |         |           |       |       |              |       |       |        |       |
| Creation of a Good or Service | 4       | 6      | 4    | 4       | 6          | 24    | 8     | 16           | 24    | 12    | 12     | 24    |
| Total                | 4       | 6      | 4    | 4       | 6          | 24    | 8     | 16           | 24    | 12    | 12     | 24    |

^aFour managers checked both of the first two answers. Two were retail managers and two were non-profit managers. All four were professional managers. Two were in large organizations and two were in medium size organizations.

All of the retail managers chose the second alternative while two of them also said psychological satisfaction could be important and, at times, was an overriding factor. One man pointed out that clothing definitely has a basic function and that many women pay extra just for the satisfaction of being able to wear a fashionable item or being the first female to wear a certain style.

The manufacturing managers divided equally in the first two answers. Their comments were short and repeated some points discussed in the two preceding paragraphs.
Each of the service managers chose the alternative stipulating that needs are satisfied through the creation of a good and/or service having utility. Their reasoning was that this was the more comprehensive answer and would be correct more often.

Non-profit managers all chose "psychological satisfaction" and two also picked "creation of a good and/or service having utility."

In looking at the results on the basis of owner managers versus professional managers, the totals reveal only two owners believed psychological satisfaction was the best choice. The other six voted for the good and/or service having utility. On the professional manager side there were eight votes for each of the first two alternatives. Four of the professionals indicated that they felt two answers were correct.

Of the ten managerial votes for psychological satisfaction, four were from managers of large firms and six from medium size firms. And of the fourteen votes for "creation of a good and/or service having utility," eight were from large organizations and six from managers of medium size structures. Since two managers of large organizations and two managers from medium organizations gave two answers, the result is that on the basis of organization size there was no difference in views regarding how need satisfaction was achieved.

Theory Statement

There are five kinds of utility created during the production and distribution process. Three of the kinds provide the form, place, and time utility--the primary utility--with which the customer is
directly concerned. The form utility involves the molding or shaping, in any way, of the form of the good or service. Place utility means that the good or service is available where it is wanted by the user, and time utility means that the item is available when it is wanted.

Two other types of utility are service and possession. During the production and distribution process, various units within the enterprise will facilitate the work of the line organization, e.g., the personnel department helps provide manpower that creates the desired product. The other type is called possession utility. Since products are acquired in order to use them, possession utility is considered facilitative since it facilitates the consumption process.

**Question 4 B**

In producing and distributing a good and/or service, what kinds of utility are created?

- Time—good and/or service available when desired
- Place—good and/or service available in desired place
- Form—good and/or service available in desired form
- Possession—utility which provides ownership of the good and/or service
- Service—facilitates the work of "line" activities, e.g., accounting work or design engineers
- Other ____________________________

This question was one that required some explanation of its intent and also of what the terminology meant. After some explanation the interviewees stated that these were concepts they did not think about very often but that, generally, they were most logical.

There was a high level of agreement among managers regarding the kinds of utility which are created in some phase of the production and distribution course. The finance managers were unanimous in their approval of the concept of five utilities. One of them, however, added
that possibly there is another kind called "leisure utility" which might include an additional dimension (enjoyment) to the time, place, and form of an orchestra's playing a concerto in an auditorium at eight o'clock. The finance managers indicated that types of utility were not normally given any consideration.

TABLE 10
KINDS OF UTILITY CREATED BY ORGANIZATIONS

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Time</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Retail</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Mfg.</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Service</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Non-Profit</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Owner</td>
<td>8</td>
<td>10</td>
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<tr>
<td>Professional</td>
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<td>Total</td>
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<td>20</td>
</tr>
<tr>
<td>Large</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Medium</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Form</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Retail</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Mfg.</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Service</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Non-Profit</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
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<td>20</td>
</tr>
<tr>
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<tr>
<td></td>
<td>Place</td>
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<td>Retail</td>
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<td>11</td>
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<tr>
<td>Mfg.</td>
<td>3</td>
<td>19</td>
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<td>Service</td>
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<td>11</td>
</tr>
<tr>
<td>Non-Profit</td>
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<td>19</td>
</tr>
<tr>
<td>Total</td>
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<td>19</td>
</tr>
<tr>
<td>Owner</td>
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<td>9</td>
</tr>
<tr>
<td>Professional</td>
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<td>9</td>
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<tr>
<td>Total</td>
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<td>19</td>
</tr>
<tr>
<td>Large</td>
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<td>9</td>
</tr>
<tr>
<td>Medium</td>
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<td>8</td>
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<tr>
<td>Total</td>
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<td>18</td>
</tr>
<tr>
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<td>Possession</td>
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<tr>
<td>Mfg.</td>
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<td>Non-Profit</td>
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<td>10</td>
</tr>
<tr>
<td>Total</td>
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<td>17</td>
</tr>
<tr>
<td>Owner</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Professional</td>
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<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Large</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Medium</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Retail</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Mfg.</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Owner</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Professional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Large</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Medium</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

The retail managers agreed with each of the types of utility listed on the interview guide. However, one manager believed that service utility is really incorporated in the other utilities since even service must be in an appropriate form in the right place and time and be possessed if it is to be used. Another retailer made the same comment about possession utility even though he listed possession as a kind of utility.
All four of the manufacturing managers checked the five kinds of utility. The general view was that time, place, and form utility are obviously necessary and that the manufacturer is in business to provide possession of the good to the buyer. Service utility is definitely necessary for a viable operation.

Managers of service enterprises readily agreed with time and form utility but there was considerably less agreement on other points. Three of the four managers agreed with place utility but the radio and television station manager felt that providing place utility was beyond their capabilities. Only one service manager mentioned possession. The others believed that one cannot own a service. Two managers stated that service utility could be included in time, place, and form utilities and one manager said that service is what the entire organization is in business to provide—service is not just the responsibility of some departments.

The managers of non-profit organizations accepted the idea of five types of utility. Two managers reiterated the point that some things you cannot possess—no one can own a minister's sermon to the congregation.

All owner and professional managers supported time, form, and place utility with the single exception of one professional manager who did not accept place as correct. In reference to possession utility one owner and two professional managers agreed. Service utility garnered the approval of six out of eight owners and of all twelve professional managers. In summation, there did not appear to be any significant difference between the feelings of owner managers and professional managers regarding types of utility.
In analyzing results on the basis of organization size, little difference is apparent. With the exception of one interviewee from a medium size structure who did not support place utility, all ten managers from large organizations and all managers from medium organizations accepted time, place, and form utility. In regard to possession utility, nine of ten men from large enterprises agreed but only eight of ten men from medium structures. The vote was nine and nine from large and medium organizations on the acceptability of the service utility concept.

**Factor Five**

**Value of Goods and Services**

**Theory Statement**

A good or service has utility if it is able to help satisfy a need or want. This utility, in turn, plays a major part in the determination of the value of the good or service. As a practical matter, the best way to determine value is through the free market price. This price is the result of the market's over-all evaluation of the usefulness of the good or service and of the cost of producing the good or service.

**Question 5 A**

The value (as measured by market price) of a good and/or service is set by:

- the cost of a good and/or service
- the utilities (usefulness) provided by a good and/or service
- the cost and the utility of a good and/or service
- other ________________________________
If you checked the third alternative, please underline the more important of cost and utility.

TABLE 11
THE DETERMINATION OF VALUE

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail</td>
</tr>
<tr>
<td>Cost and Utility</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cost</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Utility</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>4</td>
</tr>
</tbody>
</table>

The answers to this question show that only three managers said utility determines value and four managers said cost is the determinant. The answer receiving the most favorable response was "cost and utility" with the support of seven managers. The second most popular answer was "other" with six managers choosing it. These six managers stated that basically competition sets prices and that the costs of a single firm are irrelevant. One manager recalled a 1962 freeze in Florida. Subsequently, the packing firms which had citrus stored started selling the citrus for as much as possible. The prices went
high even though costs of the citrus packer had not changed and the ultimate consumer received no better product than before the freeze.

Of the four men saying cost sets price, two were owners and two were professional managers. Of the three managers picking utility as the price determinant, one was an owner and two were professionals. Seven executives stated that both cost and utility helped determine prices. Two of the eight owner managers took this stand as did five of the twelve professional managers. Three owners and three professional managers picked the alternative of "other" which, as indicated in the previous paragraph, meant that they felt that competition set prices.

Three managers of large organization structures said cost set prices. Two of these three managers were the retail managers who indicated that suppliers often, in effect, set prices or that a percentage mark-up is automatically applied to the article's cost so the retailer in many instances does not really price the item but is only the means through which the public is informed of the price. One man from a medium size organization picked "cost" as the answer. In regard to whether utility sets the market price, two managers of large organizations and one manager from a medium organization agreed. The vote was four large organization managers and three medium organization managers on the question of whether cost and utility set the market price of an article. One large organization manager and five medium organization managers chose "other" as the answer—which means they really felt that competition, which may include elements of cost and utility, determines the value or market price of a good or service.
The second portion of this question asked those managers who stated that cost and utility set prices which is more important—cost or utility. The responses were somewhat ambiguous as the feeling was that for some things cost would play the main role and that for other things utility would be more important. The consensus was, however, that cost represents the minimum price and that competition sets the approximate ceiling on price.

**Theory Statement**

Organizations attempt to produce something which has utility. This utility has value. Therefore, an organization tries to create value and, thus, the values to be created determine the various objectives of the enterprise.

**Question 5 B**

What normally is the primary determinant of objectives?

- The values of a good and/or service
- Owners' personal goals
- The state of the economy
- National needs
- Functions to be performed
- Other

This question was one of the few which confused some of the interviewees. There was some vagueness as to how values of a good or service might relate to objectives and as to exactly what was meant by functions as used in this instance. There was some hesitancy in answering or a furrowed brow which altogether suggested that this question touched on an area not normally considered by these managers.

Only four of the twenty managers said the values of a good or service are the primary determinant of organization objectives—the
answer consistent with the organization theory studied. These four managers were in three different industry categories—finance, manufacturing, and non-profit. Fifty percent of the interviewees reported that objectives are determined by the owners' goals. The feeling was that the owners can control the organization and therefore their desires (goals) directly affect, or determine, the objectives. One manufacturing manager stated that his firm especially tried to satisfy national needs since the government was a big customer, but that the firm was started specifically because of the owners' desire to be independent and if that freedom no longer existed, the founders would sell. None of the finance managers nor none of the non-profit managers said owners' goals were of primary importance.

**TABLE 12**
THE PRIMARY DETERMINANT OF OBJECTIVES

<table>
<thead>
<tr>
<th>Owners' Personal Goals</th>
<th>3</th>
<th>3</th>
<th>4</th>
<th>10</th>
<th>4</th>
<th>6</th>
<th>10</th>
<th>4</th>
<th>6</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values of Good/Service</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
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<td>4</td>
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<td>4</td>
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<td>State of Economy</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>National Needs</td>
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<td></td>
<td></td>
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<td></td>
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<td></td>
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<td>Functions to be</td>
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<td>20</td>
<td>8</td>
<td>12</td>
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</tbody>
</table>
There were several references to national needs as an objective determinant. However, no manager said it was the primary determinant. The closest a manager came to agreeing with this alternative was the manager of the retirement home. He stated that providing a secure and comfortable living for older citizens was a national need which was definitely apparent in his locality. A regional church group decided to help meet this need. Nonetheless, he said, the values placed on this service by the retirees really determined how the home was run.

Six managers chose the "other" answer to the question. One of the six said that what determines objectives would vary and the other five gave the determinant as being "society's needs," "customers' needs," "customer wants," "what the public wants," and "community needs." While these five answers were not the same as the desired "values of a good or service," they do indicate that the managers' thinking was in the direction consistent with the theory studied.

In looking at the responses on the basis of type of manager, the results were two owners and two professional managers who chose the correct answer. Of the ten men who said that owners' personal goals mainly determine objectives, four were owners and six were professional managers which means that fifty percent of the owners and fifty percent of the professional managers interviewed said owners' goals were paramount. The breakdown of the "Other" category was by two owners and four professional managers.

Large organization managers voted two, four, and four for the alternatives of "values of a good or service," "owners' personal goals," and "other," respectively. Medium organization men voted two,
six, and two for the respective alternatives of "values," "owners' goals," and "other." Thus, on the basis of organization size there was no difference in the choosing of the answer compatible with the theory being investigated. The medium size organization managers were more inclined to support "owners' personal goals" than were the men from large firms. However, in looking at the "other" category, more managers from large firms than from medium size firms stated that needs of some kind determine objectives.

Factor Six
Organizational Objectives

Theory Statement

Inasmuch as organizations must rely on the contributions of a wide variety of persons or groups, it becomes true that organizations must have a variety of objectives if they are to satisfy the contributors and thereby induce them to continue contributing. Organizations, then, have a multiplicity of objectives, most of which may be divided into various lesser sub-objectives. The theory of formal organization investigated does not propose a specific number of objectives that an organization should have. The theory states only that one objective is neither representative nor practical in today's business environment.

Question 6 A

Approximately how many major objectives does an organization normally have?
### TABLE 13

**THE NUMBER OF MAJOR OBJECTIVES OF AN ORGANIZATION**

<table>
<thead>
<tr>
<th>Highest Number Mentioned</th>
<th>Finance Total</th>
<th>Retail Total</th>
<th>Ms. Total</th>
<th>Service Total</th>
<th>Non-Profit Total</th>
<th>Total Owner</th>
<th>Total Professional</th>
<th>Total Large</th>
<th>Total Medium</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td></td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>5</td>
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<tr>
<td>Two</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td></td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Three</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Four</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td></td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Five</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Six</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Eight</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
<td><strong>20</strong></td>
<td><strong>8</strong></td>
<td><strong>20</strong></td>
<td><strong>10</strong></td>
<td><strong>10</strong></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

The executives tended to be conservative in their answering this question. Five of the twenty executives said there was one major objective and, in most instances, they were referring to the objective of making a profit. Those who gave this response always qualified their answer by saying that profit is the result of accomplishing other things such as giving the customer what he wants. The assumption
is that if profit is earned, then the enterprise, almost by definition, must be meeting various minor objectives.

Three managers said that an organization normally would have a maximum of two major objectives and four managers indicated that three major objectives would cover the usual case. Four objectives met the feeling of three of the top executives interviewed. One man said "about five objectives" and three supported a maximum of six. One manager of a non-profit enterprise answered that eight major objectives would be correct, i.e., one for each of the major contributing groups.

In comparing managers of the various types of organizations, no pattern is apparent. In each of the industry categories at least three different answers were given by the four managers in that category. Further, it should be mentioned that the managers did not have firm views on this particular point. Their comments, through the use of words such as "probably" and "most (firms) probably" and by giving answers in a range such as "probably two or three," suggested a lack of firmness in their response to giving a specific number.

Classification by type of manager reveals that only one owner said there was one major objective but four professional managers made this choice. Two owners chose two objectives but only one professional manager so responded. In regard to three major objectives, the breakdown was two owners and two professional managers. Thus, approximately sixty percent of the owner managers and approximately fifty-six percent of the professional managers indicated that there were three or less major objectives of an organization.

Of the three interviewees who said there may be four major objectives, all were professional managers. One owner manager said
there could be five objectives; no professionals agreed. Two owners proposed six objectives and one professional did; one professional commented that an organization would normally have eight major objectives. On the basis of type of manager, there appears to be no significant difference between the responses of owner managers and professional managers.

By considering answers on the grounds of size of organization, it can be seen that sixty percent of the managers of large organizations and sixty percent of the managers from medium organizations said there were three or less major objectives. In looking at others' responses to four objectives, one sees that no large organization managers agreed but three medium organization men did; in regard to five objectives, no large firm managers answered but one medium firm man did. Three managers of large enterprises said there were six major objectives and one manager of a large organization said there were eight. No managers of medium size enterprises indicated that there were six or eight objectives. On the basis of this sample, it appears that managers of large organizations are more inclined to recognize existence of a higher number of major objectives than are men of medium size structures.

Theory Statement

The theory of formal organization includes the belief that management is the group which primarily determines what the objectives of the organization will be. Managers are the people who are normally most familiar with relevant facts and who are in the position of making major decisions and implementing those decisions.
Question 6

Who primarily decides what the organizational objectives will be?

______ Customers
______ Government
______ Community-at-Large
______ Management
______ Operative Employees
______ Other ________________

As indicated on Table 14, the interviewees overwhelmingly held views similar to this theory of formal organization. They agreed that management is the main group which sets the objectives of the
organization. Seventeen managers had this belief. One manager said that customers set objectives and the two other managers said respectively, that owners do and the public does. However, the man who referred to the public went on to say that the public sets objectives but management sees the public desires and merely organizes and implements public goals. Two of the interviewees who checked the alternative of "management" qualified their statements by saying that management formulates the objectives of the customers and that owners decide over-all objectives but that internal objectives are determined by managerial personnel. One manufacturing manager differentiated between closely-held and publicly-owned firms on the assumption that in closely-held organizations the owners set objectives while in widely-held enterprises owners have little influence and therefore management makes this decision on objectives. A manager of a service organization in the government regulated broadcasting field responded that in his unique business the government determines the station's objectives but that management would handle this activity in non-regulated businesses.

Inasmuch as seventeen of twenty managers chose the same answer, no further worthwhile comparison can be made between the responses of owner managers and professional managers. This same statement applies to the classification of answers on the basis of size.

Theory Statement

The organization, as an entity, has objectives of various sorts. These objectives may well differ from those which the various contributors to the organization have. Thus, an organization has a multiplicity of objectives--meeting organizational goals and meeting the goals of the contributors.
Normally, the organization's objectives will include providing a service to customers, making a fair profit, obtaining a desired share of the market, maintaining continuity of the firm, improving the overall industry position, increasing organization size, being a leader in the industry, having a favorable image, and satisfying the personal objectives of people associated with the firm.

Question 6 C

Please check the items which may be considered objectives of an organization.

- Be a leader in the industry
- Make a fair profit
- Job security
- Impartial treatment
- Adequate return on investment
- Provide a service to customers
- Adequate information about the firm
- Maintain continuity of the firm
- Other ____________________________
- None are objectives

The list of objectives in this and other similar questions did incorporate some items which are not considered by the theory of formal organization to be normal organizational objectives although they may be personal objectives of one or more contributing groups. The theory does not consider as organizational objectives the following: having job security, receiving impartial treatment, and obtaining information about the organization itself. These non-applicable items were used as a means of discouraging an interviewee from automatically agreeing with everything listed, i.e., as a means of urging him to think before answering each item.
<table>
<thead>
<tr>
<th>Type of Objective</th>
<th>Type of Organization</th>
<th>Type of Manager</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make a Fair Profit</td>
<td>4 4 4 4 4 4 20</td>
<td>8 12 20</td>
<td>10 10 20</td>
</tr>
<tr>
<td>Adequate Return on Investment</td>
<td>4 4 4 4 4 20</td>
<td>8 12 20</td>
<td>10 10 20</td>
</tr>
<tr>
<td>Customer Service</td>
<td>4 4 4 4 4 20</td>
<td>8 12 20</td>
<td>10 10 20</td>
</tr>
<tr>
<td>Achieve Continuity</td>
<td>4 4 4 4 4 20</td>
<td>8 12 20</td>
<td>10 10 20</td>
</tr>
<tr>
<td>Industry Leader</td>
<td>4 4 4 4 3 19</td>
<td>8 11 19</td>
<td>9 10 19</td>
</tr>
<tr>
<td>Have Job Security</td>
<td>1 4 2 2 2 11</td>
<td>4 7 11</td>
<td>7 4 11</td>
</tr>
<tr>
<td>Impartial Treatment</td>
<td>3 1 1 1 1 6</td>
<td>2 4 6</td>
<td>4 2 6</td>
</tr>
<tr>
<td>Obtain Information</td>
<td>2 1 2 5</td>
<td>2 3 5</td>
<td>2 3 5</td>
</tr>
<tr>
<td>Other</td>
<td>1 1 2</td>
<td>2 2</td>
<td>2 2</td>
</tr>
<tr>
<td>None Are Objectives</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
For the most part the series of eleven questions dealing with organizational and personal objectives revealed a high level of agreement among the managers and with the theory studied. The supporting data are in Table 15.

Of the five basic organizational objectives listed, there was almost unanimity of agreement that they were normal, legitimate objectives. One manager of a large non-profit enterprise failed to indicate that being a leader in the industry would be an organizational objective.

The finance managers were the only group which almost responded to the whole question in a manner consistent with the theory. Various managers commented that several of the objectives were almost the same. For example, the making of a fair profit is highly similar to achieving an adequate return on investment and helping to maintain continuity of the firm.

There were three items which are not organizational objectives (having job security, receiving impartial treatment, and obtaining information about the firm). Eleven managers, however, checked off job security as being an objective. While this figure represents fifty-five percent of the managers, it is a distinct decrease from the normal one hundred percent which checked the "correct" objectives. The items dealing with impartial treatment and information about the firm were agreed to by six and five men, respectively.

Two managers added some objectives. A large service organization manager added "to find good people" and the hospital administrator added "innovation, development of people, responsibility to the community, productivity, and adequate financial and physical resources."
Analysis of results on the basis of type of manager shows that the one manager who did not choose "being a leader in the industry" as an organizational objective was a professional manager. As stated above, the other four valid objectives were unanimously accepted. In regard to receiving impartial treatment, twenty-five percent of the owners and thirty-three percent of the professional managers said yes. However, since these two percentages represent only a total of six men, the percentage difference is of little importance. Twenty-five percent of the owners and professional managers stated that obtaining information about itself was a legitimate organizational goal. Fifty percent of the owners and fifty-eight percent of the professional managers submitted that job security was an objective of the organization entity. The two managers who added objectives to the list provided were both professionals and from large organizations.

The manager who dissented from the majority views on the five valid organizational objectives was in charge of a large enterprise. Four managers from large firms and two from medium firms stated that impartial treatment was an objective and seven men from large firms and four from medium firms said that job security was a normal objective. Relative to obtaining information about the enterprise, the number of managers from large and medium size firms were, respectively, two and three.

**Theory Statement**

This question attempted to ascertain the extent to which the enterprises of the interviewees actually had organizational objectives considered valid by the theory studied.
Question 6 D

Please check the items which are similar to your organization's objectives.

____ Improve industry's position
____ Growth
____ Be a leader in the industry
____ Good image
____ Make a fair profit
____ Provide a service to customers
____ Obtain desired share of the market
____ Maintain continuity of the firm
____ Satisfy personal objectives of all people associated with the firm
____ Other ________________________________________________________________
____ None are objectives

The objectives which were claimed by a high proportion of the industry managers were growth, good image, fair profit, service, and continuity of the firm. While service was the only objective to receive the concurrence of all interviewees, all sixteen managers of profit-making organizations said they had the objective of making a fair profit. The manager of the large government corporation was the one person who did not indicate that growth was an objective and he was one of two men who did not say continuity was an objective. His reasoning was that the job could be done by one organization as well as another--there is nothing sacrosanct about an impersonal organization even though the individuals working in that organization may have a selfish interest in seeing it maintained and grow.

Being a leader in the industry was an objective acknowledged by eleven persons; improving the position of the industry was supported by only eight managers. Obtaining a desired market share was an objective in fifteen of the organizations including two of the non-profit enterprises--the youth development group and the hospital. The retailers were the only group in which all four managers
<table>
<thead>
<tr>
<th>Objective</th>
<th>Finance</th>
<th>Retail</th>
<th>Mfg.</th>
<th>Service</th>
<th>Non-Profit</th>
<th>Total</th>
<th>Owner</th>
<th>Professional</th>
<th>Total</th>
<th>Large</th>
<th>Medium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide service to customers</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>20</td>
<td>8</td>
<td>12</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Growth</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>19</td>
<td>8</td>
<td>11</td>
<td>19</td>
<td>9</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>Have a good image</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>19</td>
<td>7</td>
<td>12</td>
<td>19</td>
<td>9</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>Make a fair profit</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>19</td>
<td>8</td>
<td>8</td>
<td>16</td>
<td>8</td>
<td>8</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Maintain continuity of the firm</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>18</td>
<td>7</td>
<td>11</td>
<td>18</td>
<td>9</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Obtain desired share of the market</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>15</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>8</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>Be a leader in industry</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>11</td>
<td>3</td>
<td>8</td>
<td>11</td>
<td>6</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Improve industry's position</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>8</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>5</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Satisfy personal objectives of contributors</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>8</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>4</td>
<td>4</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

agreed on the market share objective. To satisfy the personal objectives of contributors was supported by eight of the interviewees. None of the finance managers acknowledged this goal; three of the non-profit managers did, one of the manufacturers, and two each from retail and service.

Service was stated as an objective by all owners and professional managers. Similarly, a fair profit was an established objective according to all owners and professional managers in profit-making enterprises. Of the other seven objectives, the professional managers had a higher percentage of agreement than the owners in six cases. The one exception was due to the government manager who said growth was not a goal.

In analyzing the results of this question on the basis of organization size, no significant difference is apparent except in regard to the objective of improving the position of the industry. Fifty percent of the managers of large firms checked this item but only thirty percent of the managers from medium size organizations did so. In all other cases the number of managers checking an objective was either the same or deviated by one interviewee.

Theory Statement

In order for goals to be achieved efficiently and effectively, the organization should establish a hierarchy of internal objectives. At the top of the hierarchy are major objectives of the entire organization. In descending order of importance in the hierarchy are the subordinate objectives of the department, the section, the work unit,
and the individual's work objectives. Each subordinate objective should contribute to the accomplishment of its immediate superior goal.

Question 6 E

Which of the following hierarchies of internal objectives is the most desirable?

- Highest (most important) ———> Lowest (least important)
- Individual worker, company, departmental, section, work unit objectives
- Individual worker, work unit, section, departmental, company objectives
- Company goals, departmental, section, work unit, individual worker objectives
- None is desirable
- Objectives need not be ordered in priority
- Other ________________________________

A substantial proportion (eighty percent) of the executives accepted the thesis of Hay's theory of formal organization by saying that they do have a hierarchy of objectives and that their organizations' hierarchies are essentially similar to the company, department, section, work unit, individual hierarchy proposed in the theory.

Two of the finance managers disagreed with the concept of an established hierarchy. Both said there is too much of that sort of thing. The savings and loan association president stated,

We don't have hierarchies as such. I think there is too much of this chain of command, organized organization business. Our goal is to make money. Naturally, each department has certain things it does to achieve that goal and individual employees in those departments have certain functions to perform. It is difficult to say that company goals are more important than those of departments.

Three manufacturing managers agreed with the theory-proposed hierarchy. One man, however, said the hierarchy really starts with
<table>
<thead>
<tr>
<th>Objective Description</th>
<th>Finance</th>
<th>Retail</th>
<th>Mfg.</th>
<th>Service</th>
<th>Non-Profit</th>
<th>Total</th>
<th>Owner</th>
<th>Professional</th>
<th>Total</th>
<th>Large</th>
<th>Medium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company goals, departmental, section, work unit, individual worker objectives</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>16</td>
<td>6</td>
<td>10</td>
<td>16</td>
<td>8</td>
<td>8</td>
<td>16</td>
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<tr>
<td>Objectives need not be ordered in priority</td>
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<td>1</td>
<td>2</td>
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<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Individual worker, work unit, section, departmental, company objectives</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>None is desirable</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Individual worker, company, departmental, section, work unit objectives</td>
<td></td>
<td></td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>20</td>
<td>12</td>
<td>20</td>
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<td>Total</td>
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<td>12</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>20</td>
</tr>
</tbody>
</table>
the individual. He is the focal point. If he is motivated then you can achieve the next higher goal and soon. The manager added that in making the company goal most important, a less efficient firm would result. In fact, his firm had put much effort into telling workers that worker and company goals will be different but complementary.

In the service organization category three men accepted the theory position but the fourth manager stated that his firm did not have a hierarchy and did not have any written objectives. While this situation was due to the management prior to his arrival, he saw no reason to change.

The retail and non-profit executives all agreed with the theory hierarchy.

Several managers in the total sample pointed out that the hierarchy concept was good and they tried to follow it but did not have the objectives of the various levels in writing.

The executive who definitely believed in a hierarchy starting with the worker was a professional manager and the executive who said that objectives should not be put in a hierarchy was an owner manager. One owner and one professional manager indicated that objectives need not be ordered in priority especially since they are so subject to change.

The six remaining owner managers and the ten professional managers accepted the hierarchy set forth by the theory. Thus, seventy-five percent of the owners and eighty-three percent of the professional managers sampled agreed with the theory.
No significant difference existed in the answers of men from large and from medium size organizations. One alternative answer was chosen only by a man from a large firm; another only by a medium size organization executive. One manager each from large and medium size firms chose a third alternative. The fourth alternative—advocated by the theory—was approved by an equal number of top managers from large and from medium size organizations.

**Factor Seven**

**Personal Objectives**

**Theory Statement**

Customers are one of several groups which contribute to the organization's well-being. In exchange for the usual cash payment they give, customers desire to have one or more objectives satisfied. They wish a quality product or service which is fairly priced and available at the desired time and place in the desired quantities. Customers also want product service if required and some information about the product and its maker.

**Question 7 A**

Which of the following items are personal objectives for customers?

- [ ] Quality product
- [ ] Fairly priced product
- [ ] Desired quantity
- [ ] Product available at desired time and place
- [ ] Proper service if necessary
- [ ] Adequate knowledge of product and firm's activities
- [ ] Adequate return on owner's investment
- [ ] Other
- [ ] None are objectives
Adequate return on owners' investment was an objective which is not normally within the interests of customers and the majority of managers recognized this fact. The bank president was the one top manager to list this as a customer objective. This man also added as an objective the desire to be treated and appreciated as an individual. The other six items are considered to be legitimate customer goals by the theory of formal organization studied.
Four of the objectives—desire for a quality product, a fairly priced product, availability of a desired quantity of the product, and availability at the desired time and place—were recognized by every top manager as being objectives of customers.

Proper service if necessary was stated to be a customer goal by seventeen of the interviewees. Two retail managers and one manufacturing manager of a steel firm stated that the item was not applicable since it is implied in the other objectives such as quality product. The two retail managers also felt that servicing of the item was not applicable in their cases unless it was related to product quality. One of the elaborating comments was, "If a customer happens to get a poor item she can bring it back and get her money or another item. We stand behind our product."

Adequate knowledge of the product and of the firm's activities was agreed to by eleven managers. Only one finance manager (a bank president) believed this to be a customer objective. Three men each from the retail and the manufacturing categories checked this item while only two from the service and the non-profit categories did so.

On the basis of owner managers and professional managers, one discovers that on the three items on which differences existed the differences were small. Eleven professional managers said proper service was an objective and six owners said so—thus two owners did not check this objective and one professional manager did not. Seven professional managers and four owners indicated that adequate knowledge of product and firm is an objective. They represented
fifty-eight percent and fifty percent, respectively, of their groups. The one executive who stated that an adequate return to the owners was an objective was a professional manager in a large enterprise.

Eight managers of large structures and nine from medium structures chose proper service as a customer objective and six men from large firms and five from medium size firms checked adequate knowledge. The other four objectives were accepted by all men from both large and medium organizations.

**Theory Statement**

Just as customers have multiple objectives so do managers. Personal goals which a manager generally has are to maintain or improve present position and salary, have opportunity for advancement, achieve organizational goals, achieve organizational efficiency, achieve owner objectives, be recognized for his efforts, and acquire adequate knowledge about the firm's activities. In exchange for having these objectives satisfied, the manager provides his leadership capabilities.

**Question 7**

Which of the following items are personal objectives of managers?

- [ ] Improve present position and salary
- [ ] Achieve organizational objectives
- [ ] Achieve owners' objectives
- [ ] Obtain desired share of the market
- [ ] Acquire adequate knowledge about the firm's activities
- [ ] Recognition for efforts
- [ ] Achieve organizational efficiency
- [ ] Other ____________________________
- [ ] None are objectives
TABLE 19
PERSONAL OBJECTIVES OF MANAGERS

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Retail Mfg. Service Non-Profit Total Owner Professional Total Large Medium Total</td>
<td></td>
</tr>
<tr>
<td>Improve Present Position and Salary</td>
<td>4 4 4 4 4 20 8 12 20 10 10 20</td>
<td></td>
</tr>
<tr>
<td>Achieve Organizational Objectives</td>
<td>4 4 4 4 4 20 8 12 20 10 10 20</td>
<td></td>
</tr>
<tr>
<td>Recognition for Efforts</td>
<td>4 4 4 4 4 20 8 12 20 10 10 20</td>
<td></td>
</tr>
<tr>
<td>Acquire Knowledge</td>
<td>3 4 4 4 4 19 7 12 19 10 9 19</td>
<td></td>
</tr>
<tr>
<td>Achieve Organizational Efficiency</td>
<td>2 4 4 4 4 18 7 11 18 10 8 18</td>
<td></td>
</tr>
<tr>
<td>Obtain Market Share</td>
<td>2 4 3 3 4 16 6 10 16 7 9 16</td>
<td></td>
</tr>
<tr>
<td>Achieve Owner Objectives</td>
<td>1 3 4 4 3 15 5 10 15 8 7 15</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1 1 1 1 1 1 1</td>
<td></td>
</tr>
</tbody>
</table>

Of the personal objectives listed in the question, one is not an accepted part of this aspect of the theory of formal organization. This is the item, "To obtain desired share of the market." Sixteen managers,
however, considered this to be an objective of managers while in a previous question fifteen managers said obtaining a desired share of the market was an objective of their organizations. All but two owners and two professional managers checked this item and all but three from large size organizations and all but one from medium structures checked it.

Seven other objectives were discussed and of these three were unanimously supported by the interviewees and one was backed by nineteen of the executives. The manager of the investment banking house did not identify acquiring adequate knowledge of the firm's activities as a personal objective and neither he nor the manager of the savings and loan association said that achieving organizational efficiency was a managerial objective although all other interviewees did.

Achieving owner objectives was backed by three-fourths of the men but with the support of only one finance manager.

A non-profit professional manager in the youth development field said another objective of a manager in his work is to attain a sense of accomplishment by, for example, seeing how he has helped a young person improve himself.

All owners and professional managers indicated that improving present position and salary, achieving organizational objectives, and being recognized for their efforts were normal goals of managers. Each of the professional managers and all but one of the owners identified acquisition of knowledge as a personal objective.

Seven owners and eleven professional managers voted for organizational efficiency as a manager's objective. Only five of the owners
said that achieving owner objectives was a managerial goal, but ten of the professional managers agreed with this point.

Again, on three objectives the vote on the basis of men from large and medium size structures was one hundred percent in support. The one executive who did not say that knowledge regarding the firm's activities was an objective was from a medium size firm. The division on achieving organizational efficiency was ten and eight with large firm managers supplying the larger number.

Eight of the interviewees from large firms and seven from medium firms chose attaining owner objectives as a personal goal of managerial personnel.

The executive who added sense of accomplishment as an objective worked for a medium size enterprise.

While several objectives received very strong support from the top managers interviewed, the figures themselves do not emphasize the point made by the managers. The top executives definitely felt that the prime interest of the manager was the maintaining or improving his position and salary. Other objectives were, for the most part, supplementary to this goal. They mentioned that improving his position and salary was the reason for trying to do a good job and that meeting some of the other objectives discussed were merely stones along the path to this main objective.

**Theory Statement**

Owners, like other contributors to the organization, have multiple objectives which they hope to have met in exchange for the equity capital they contribute to the enterprise. Owners' objectives usually
include adequacy and continuity of return on investment, safety of investment, marketability and appreciation of investment, and adequate information about the firm.

**Question 7 C**

Which of the following items are personal objectives of owners?

- [ ] Adequate return on investment
- [ ] Recognition for operative work done
- [ ] Adequate information about the firm
- [ ] Appreciation of investment
- [ ] Continuity of return on investment
- [ ] Safety of investment
- [ ] Marketability of investment
- [ ] Other
- [ ] None are objectives

**TABLE 20**

**PERSONAL OBJECTIVES OF OWNERS**

<table>
<thead>
<tr>
<th></th>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail</td>
<td>Mfg.</td>
</tr>
<tr>
<td>Adequate Return</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Appreciation of Investment</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Continuity of Return</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Marketability</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Adequate Information</td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Safety of Investment</td>
<td>4</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Recognition for Work</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
This question included one item not usually found in any listing of owner wants and neither is it found in the theory studied. Consequently, the interviewees were expected not to identify "recognition for operative work done" as an owners' objective. None of the executives said it was an objective. Some of them mentioned, offhandedly, that the point might be relevant to the extent that employees owned stock but that this did not appear germane to the real question.

Finance managers gave unanimous support to four of the six valid objectives, seventy-five percent support to one objective, and fifty percent support to the objective concerning adequate information.

Retail executives backed each objective completely. This was the only type of organization manager to indicate complete concurrence with the theory on this point.

Manufacturing executives indicated total agreement with four objectives, seventy-five percent agreement with the desire for a marketable investment, and a fifty percent agreement with the goal of safety of investment.

In discussing five of the objectives, all service organization managers indicated acceptance of the theory position. One manager did not check marketability of investment as an objective although his service colleagues did.

The men from non-profit organizations tried to answer this question from the view of a profit-making firm. These four executives gave complete support to four objectives and three-fourths support to the remaining goals.
Because of the high level of agreement by all managers with the owner objectives (the lowest number of men agreeing with an objective was seventeen), it is obvious that no significant differences existed between the answers of the owner managers and the professional managers. On the two objectives of adequate return on investment and appreciation of investment all owner and professional managers gave affirmative replies. In regard to continuity of return all professional managers agreed but one owner did not consider it important because, as the major owner in a brokerage house, he is aware that most of his clients buy stock not because of dividend yield but because of appreciation potential. The objectives of safety and marketability of investment were concurred with by eleven professional managers but only by six owners and seven owners respectively. Adequate information was an owner goal recognized by seven owner managers and ten professional managers.

In viewing the results of this question on the basis of size of organization, no real differences appear. On two objectives all twenty top managers agreed. On two other objectives men from large size organizations gave a higher level of support and managers from medium size firms indicated more backing on two objectives.

Theory Statement

Operative employees are an integral part of the organization and spend a great deal of their time within the structure. Logically, then, employees have many objectives which they wish to have satisfied in reciprocation of their contributing time, effort, and loyalty.
Their objectives may well include adequate wages with reasonable hours and working conditions, job security, fringe benefits, recognition for work done, opportunity for advancement, two-way communication, adequate information about the firm, impartial treatment, and equal employment opportunities.

Question 7 D

Which of the following items are personal objectives of operative employees?

- Equal opportunity for employment
- Adequate wages
- Reasonable hours and working conditions
- Job security
- Fringe benefits
- Impartial treatment
- Adequate information about the firm
- Civic-minded management
- Two-way communication
- Recognition for work done
- Opportunity for advancement
- Other _____________________________
- None are objectives

During the discussions on what operative employees desire, interviewees were asked about civic-minded management. Seventeen of the top executives accepted the theory of formal organization. They said that employees are not concerned with whether management is civic-minded. One man each from a retail, a service, and a non-profit organization did say that this was an objective.

Of the ten valid employee objectives, four were backed by all managers and three gained the support of nineteen of the twenty interviewees. Eighteen men said that opportunity for advancement was an employee objective. Representatives from the retailing and the non-profit categories were the deviations from the consensus.
<table>
<thead>
<tr>
<th>Objective</th>
<th>Type of Organization</th>
<th>Type of Manager</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate Wages</td>
<td>4 4 4 4 4 4 20</td>
<td>8 12 20</td>
<td>10 10 20</td>
</tr>
<tr>
<td>Reasonable Hours and Working Conditions</td>
<td>4 4 4 4 4 4 20</td>
<td>8 12 20</td>
<td>10 10 20</td>
</tr>
<tr>
<td>Impartial Treatment</td>
<td>4 4 4 4 4 4 20</td>
<td>8 12 20</td>
<td>10 10 20</td>
</tr>
<tr>
<td>Recognition for Work</td>
<td>4 4 4 4 4 4 20</td>
<td>8 12 20</td>
<td>10 10 20</td>
</tr>
<tr>
<td>Job Security</td>
<td>4 4 4 4 4 3 19</td>
<td>8 11 19</td>
<td>10 9 19</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>3 4 4 4 4 4 19</td>
<td>8 11 19</td>
<td>10 9 19</td>
</tr>
<tr>
<td>Two-way Communication</td>
<td>4 4 4 3 4 4 19</td>
<td>7 12 19</td>
<td>10 9 19</td>
</tr>
<tr>
<td>Advancement Opportunity</td>
<td>4 3 4 4 4 3 18</td>
<td>8 10 18</td>
<td>10 8 18</td>
</tr>
<tr>
<td>Equal Employment Opportunity</td>
<td>1 3 4 2 3 13</td>
<td>5 8 13</td>
<td>7 6 13</td>
</tr>
<tr>
<td>Information About Firm</td>
<td>2 2 2 3 1 10</td>
<td>4 6 10</td>
<td>6 4 10</td>
</tr>
<tr>
<td>Civic-minded Management</td>
<td>1 1 1 3 1 2 3</td>
<td>3 3</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>2 2 2 2 2 1 1 2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
There were only two objectives which did not secure a high level of agreement. Adequate information about the firm obtained only ten votes--two each from the finance, retail, and manufacturing organizations, three from service executives, and one from a non-profit manager. This fifty percent agreement came at the same time that the objective of two-way communication was concurred with by ninety-five percent of those interviewed. The other objective which received a low level of support relative to other goals concerned equal employment opportunities regardless of such things as race. One finance man agreed that this was an objective, three retailers agreed, as did four manufacturing executives, two service executives, and three non-profit managers. This number of thirteen includes two persons who added that equal opportunities might be important in some instances but that it would be an objective of low priority.

Two manufacturing executives each added one more objective. The objectives related to a sense of belonging and to satisfaction with the work.

Of the five types of organization managers, those from manufacturing showed the most acceptance of the objectives put forth by the theory. On nine of the ten objectives they unanimously supported the theory position.

Four employee objectives obtained the support of all eight owner managers and all twelve professional managers. Three objectives gained only nineteen favorable responses. All eight owners concurred with job security but only eleven professional managers did. One professional did not agree because his organization was heavily populated
with part time and temporary help which he was certain was not interested in job security. All professional managers agreed that fringe benefits were a common objective but only seven owners were so inclined. All eight owners supported the objective of two-way communication but only eleven of the professional managers did. The professional manager who deviated was a long time employee in the broadcasting field. He did say, however, that two-way communication would be an objective in some instances.

Opportunities for advancement were seen as a legitimate employee objective by eighteen of the interviewees—all the owners and ten of the professional managers. Five owners and eight professional managers composed the group who agreed that equal employment opportunities were a common objective. One-half of the owners and one-half of the professional managers said information about the firm was a goal of employees. Of the three men who said civic-minded management was something employees wanted, one was an owner. Lastly, the two top executives who added employee objectives were owner managers.

Civic-minded management is not considered by the theory to be a normal employee objective. Three executives from medium size firms disagreed with this theory position. Of the two owners who added an objective to the list, one was from a large firm and the other from a medium size structure.

Of the other ten objectives which were discussed, four attained one hundred percent acceptance by all men from the large and medium size firms. The six remaining goals were supported more heavily by top executives from large firms than those from medium size organizations.
Theory Statement

Generally, suppliers do not have the extensive contact and deep interest in a firm that some of the other contributing groups have. Thus, suppliers' objectives are relatively few. Usually, these objectives include desires for payment on time for supplies furnished, opportunity to present products to the potential purchaser, and adequate information about the firm.

Question 7 E

Which of the following items are personal objectives of suppliers?

- Payment on time for supplies furnished to the firm
- Safety of investment
- Equal opportunity to present products to the firm
- Adequate information about the firm
- Other
- None are objectives

Discussion with the top executives included whether or not safety of investment is a normal goal of suppliers. It is not included in the theory of formal organization studied. Four managers (two managers in manufacturing, one in service, and one in non-profit enterprises) checked this as a goal. One executive stated that suppliers want their investment to be safe until it is paid for and another executive reported that suppliers want owners to succeed so the suppliers will not be deprived of a customer. Three of these four managers were professionals and one an owner. One was from a large organization and three from a medium size firm.
### TABLE 22
PERSONAL OBJECTIVES OF SUPPLIERS

<table>
<thead>
<tr>
<th></th>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail</td>
<td>Mfg.</td>
</tr>
<tr>
<td>Payment on Time</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Opportunity to Present Products</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Adequate Information</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Safety of Investment</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Of the three valid supplier objectives, two obtained a high level of support. All twenty men said that payment on time was an objective and nineteen men said yes to the objective of opportunity to present products to the purchasing firm. The manager from the savings-and-loan association was the one man who did not identify this as an objective. The supplier objective of adequate information about the firm was accepted by fourteen of the twenty interviewees. None of the finance managers agreed with this goal; three men each from retailing and manufacturing did and all service and non-profit executives answered affirmatively. A non-profit manager qualified his response by saying that the supplier desires information so he can make better
credit decisions or make a better presentation of his products. Two non-profit managers added a supplier goal. One stated that acceptance of the product was an objective and the other pointed out that suppliers also desire to develop a continuity of relationship.

Eight owners and twelve professional managers said payment on time was an objective. Eight owners and eleven professionals supported the objective of an opportunity to present products. In regard to the goal relating to adequate information, the breakdown was five owners and nine professional managers in support. The two managers who added an objective were both professionals.

The two executives just mentioned were from large organizations. On two objectives the men from large enterprises were unanimously behind the theory position. The managers from medium organizations were unanimously in favor of one but only ninety percent in favor of the other. Lastly, on the objective concerned with adequate information the vote was seven each from large and medium size organization representatives.

Theory Statement

Many organizations must borrow capital and so creditors (herein defined as money lenders) enter the organization as a contributing group. Creditors want the timely return of their principal and interest, collateral for the loan, and adequate information about the firm's activities.
Question 7 F

Which of the following items are personal objectives of creditors (money lenders)?

- Receive principal and interest
- Collateral on investment
- Adequate information about the firm
- Other
- None are objectives

**TABLE 23**

PERSONAL OBJECTIVES OF CREDITORS

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail</td>
</tr>
<tr>
<td>Receive Principal and Interest</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Collateral</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Adequate Information</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

All three of the objectives which were discussed were compatible with the theory of formal organization. Every top manager voiced his agreement with the three items. Several men added that adequate information about the firm is not only desired after a loan is made but that it is a prerequisite to lending.
One professional manager from a large manufacturing organization added that creditors desire a borrower to have long range objectives and adequate market penetration. Another professional manager in a medium size non-profit organization suggested that creditors are interested in the borrowing firm having good competent management.

Theory Statement

The government (local, state, and federal) gives the organization several things such as corporate charters and licenses and protection. In exchange, the government expects the enterprise to pay taxes when due and, in general, expects the firm to obey all laws and to provide information about its activities.

Question 7 G

Which of the following are objectives of government?

_____ Receive taxes when due
_____ Impartial treatment
_____ Expect the firm to obey all laws
_____ Receive adequate information about the firm
Other ____________________________________________
_____ None are objectives

The discussions with top managers brought up the item concerning impartial treatment. In keeping with the theory position, eighteen of the managers indicated that this was not an objective of government. The two executives who did agree, however, were professional managers in non-profit organizations. One was from a large structure and the other from a medium size one.

The other three items which were discussed in each interview were objectives considered legitimate by the theory of formal organization. All twenty managers agreed that the government expects taxes
to be paid on time and obedience of all laws. In regard to whether the government wishes to receive information about the firm three executives each from retail and non-profit enterprises said yes. Two men each from finance, manufacturing, and service replied in the affirmative. The point was made that the government desires certain information as required by law. As long as the firm obeys the law the government will obtain what it needs and it wants no more. Another point was that there appears to be no end to the information government desires—a good portion for which it probably has no use.

**TABLE 24**

**OBJECTIVES OF GOVERNMENT**

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Retail</td>
<td>Mfg.</td>
</tr>
<tr>
<td>Receive Taxes</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Firm to Obey All Laws</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Adequate Information</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Impartial Treatment</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
Two professional non-profit managers (one each from a large and a medium size organization) added an objective. One said the government expects the enterprise to be a good citizen and the other said the firm is expected to do what is good for the nation.

Of the one valid objective which did not receive unanimous support, the vote was affirmative by five owners and seven professional managers. On the basis of whether these managers were from large or medium size firms, five men were from large firms and seven from medium firms.

Theory Statement

The community desires that the organization be a good citizen, that both management and operative employees be civic-minded, that the firm not pollute the environment, and that the firm keep the community adequately informed about its activities.

Question 7 H

Which of the following items are desires of the community?

_____ Good citizenship from the firm
_____ Impartial treatment
_____ Civic-minded management and employees
_____ No offensive residue to enter the community
_____ Adequate information about the firm
_____ Other
_____ None are objectives

Five objectives were part of each interview. One objective was impartial treatment and since the theory did not include it among normal objectives of the community, this objective should have been disregarded by the top executives. In fact, seven of the twenty men listed it as an objective. Three were from the non-profit organizations and one each from the other four types of organization. The
only significant comment relative to this point was by a manufacturing manager whose firm has several branches. He noted that if the firm does something good in one town, the other communities want the same favorable treatment. Of the seven executives who indicated that impartial treatment was a community objective only one was an owner; four were from large firms and three from medium size organizations.

**TABLE 25**

**OBJECTIVES OF THE COMMUNITY**

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance Retail Mfg. Service Non-Profit Total Owner Professional Total Large Medium Total</td>
<td></td>
</tr>
<tr>
<td>Good Citizenship</td>
<td>4 4 4 4 4 4 20 8</td>
<td>12 20 10 10 20</td>
</tr>
<tr>
<td>No Pollution</td>
<td>4 4 4 4 4 4 20 8</td>
<td>12 20 10 10 20</td>
</tr>
<tr>
<td>Civic-Mindedness</td>
<td>3 4 4 4 4 19 7</td>
<td>12 19 10 9 19</td>
</tr>
<tr>
<td>Impartial Treatment</td>
<td>1 1 1 1 1 3 7 1</td>
<td>6 7 4 3 7</td>
</tr>
<tr>
<td>Adequate Information</td>
<td>1 1 1 3 6</td>
<td>6 6 4 2 6</td>
</tr>
<tr>
<td>Other</td>
<td>1 1 1 1 1 1</td>
<td></td>
</tr>
</tbody>
</table>

All top executives agreed that the enterprise is expected to be a good citizen and that the community expects the firm to refrain from polluting the environment. A close to unanimous stance was taken on the objective regarding a civic-minded management and employees.
Nineteen men agreed on this point but one finance manager did not—in spite of the fact that he had just accepted the position as area chairman for the National Alliance of Businessmen's JOBS program to aid in the hiring of the hard core unemployed.

Only six managers accepted the point that a community objective is to receive information about the firm. The prevailing opinion was that as long as the firm generally conducts itself properly then the community does not care what the organization does. Of the six men who said information was an objective, one was from a finance firm, one from a manufacturing group, one from a service organization, and three from non-profit enterprises.

One professional executive from a medium non-profit organization added an objective which was similar to the one of good citizenship. He felt that a separate objective would be that of the public good, i.e., not doing anything contrary to public interest.

The interview results on the basis of answers from owners and professional managers reveal the natural eight and twelve division on the two objectives unanimously accepted and a seven and twelve division on the goal relating to the civic-mindedness of managerial and operative employees. The remaining valid theory objective which concerned information was supported by six professional managers and no owners.

On the basis of organization size there was a ten and ten split on two objectives. The objective on civic-mindedness which gained the support of only nineteen men found ten men from large firms and nine from medium size firms in back of it. Four executives from large enterprises and two from medium size ones made up the contingent of six
which stated that adequate information on the firm's activities represented a community objective.

**Factor Eight**

Managerial Philosophy

**Theory Statement**

The determination of objectives within the organization is influenced by the philosophy of the managerial personnel who guide the firm. The philosophy of the managers is composed of various sets of values. These value systems which play an important role in making up a manager's philosophy include the economic values, the social-cultural values, the political-legal values, and ethical-religious values.

**Question 8 A**

If management decides what organizational objectives are to be, what values may affect their thinking in this decision-making process? OF THOSE YOU CHECKED, please rank them.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Economic Values</th>
<th>Political-legal Values</th>
<th>Social-cultural Values</th>
<th>Ethical-religious Values</th>
<th>The Physical Environment</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If the interviewees were to agree with the theory of formal organization, they were expected to say that managerial philosophies were influenced by economic, social-cultural, political-legal and ethical-religious value systems. The physical environment was listed on the assumption that perhaps some executives might consider it
TABLE 26
RANKINGS OF VALUE SYSTEMS

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over-all</td>
<td>Finance</td>
</tr>
<tr>
<td>Economic</td>
<td>1 1 1 a</td>
<td>1 1 2</td>
</tr>
<tr>
<td>Ethical-Religious</td>
<td>2 2 a</td>
<td>1 a</td>
</tr>
<tr>
<td>Political-Legal</td>
<td>3 2 a</td>
<td>3 2 a</td>
</tr>
<tr>
<td>Social-Cultural</td>
<td>4 4 4 3 1</td>
<td>3 3 a</td>
</tr>
<tr>
<td>Physical Environment</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

aThe derived values were identical. Refer to Tables 27 and 28.

influential. One executive commented on this by saying that contemporary physical environments in which managers operate are so standardized, and comfortable, that their influence is nil. The theory did not set forth any order of importance of the value systems. To determine managerial thinking on this point, the managers were asked to rank the value systems on the basis of influence on managerial philosophy. Values were derived from the resulting rankings by giving a rank of one a weight of one, a rank of two a weight of two, and so on. Thus, the more influential a value system was perceived to be,
the lower the derived value. Table 26 shows the rankings and Tables 27 and 28 indicate the derived values.

In computing the derived values the alternative "physical environment" was not included since the small number ranking it, when divided among the various classifications, tended to produce misleading figures. The one exception was in computation of over-all derived values for all nineteen managers who answered this question. The desired values by type of organization are shown in Table 27 on page 125.

The rankings of one owner of a medium-size finance organization are not included in the tables because his responses were such as to be incompatible with the normal tabulation process. This manager ranked social-cultural values first but included economic values in social-cultural. He ranked legal values second, ethical third, political fourth, and religious values fifth.

Unhesitatingly, half of the managers said that a manager's economic thinking is the most influential factor in his decision-making. The over-all ranking by the nineteen managers who gave usable replies showed that economic values were most important, ethical-religious were second, political-legal were third, social-cultural were fourth, and the physical environment, ranked by eight men, was listed last.

Non-profit managers ranked economic values second in importance but the other four types of organization put it first. Non-profit managers also differed from the other industry categories by ranking political-legal values fourth while three other groups placed it second and one group placed it third. On ethical-religious values the results became blurred. Retailers gave such values a tie for
first ranking; finance and manufacturing managers ranked it second (the same rank they gave political-legal values); non-profit managers ranked ethical-religious third while service managers gave it a rank of fourth. Social-cultural values were considered fourth most important in influencing philosophy by finance, retail, and manufacturing executives, third most influential by service managers, and most influential by non-profit executives.

**TABLE 27**

<table>
<thead>
<tr>
<th>DERIVED VALUES AS BASIS FOR RANKING OF VALUE SYSTEMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over-all</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>Economic</td>
</tr>
<tr>
<td>Ethical-Religious</td>
</tr>
<tr>
<td>Political-Legal</td>
</tr>
<tr>
<td>Social-Cultural</td>
</tr>
<tr>
<td>Physical Environment</td>
</tr>
</tbody>
</table>

In comparing the rankings on the basis of owners and professional managers, there is agreement on only the top ranking of economic values. Owners gave rankings of (in descending order) economic, ethical-religious, social-cultural, and political-legal. Professional managers, on the other hand, ranked economic values first, political-legal second, and tied for third rank were social-cultural and ethical-religious values. The values on the basis of type of manager and size of organization are shown in Table 28.
TABLE 28

DERIVED VALUES OF VALUE SYSTEMS BY TYPE OF MANAGER AND SIZE OF ORGANIZATION

<table>
<thead>
<tr>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Owner</td>
</tr>
<tr>
<td>Economic</td>
<td>1.85</td>
</tr>
<tr>
<td>Ethical-Religious</td>
<td>2.71</td>
</tr>
<tr>
<td>Social-Cultural</td>
<td>3.00</td>
</tr>
<tr>
<td>Political-Legal</td>
<td>3.28</td>
</tr>
</tbody>
</table>

Executives from large and medium size structures agreed on rankings on two of the four sets of value systems. Both groups ranked economic values first and ethical-religious second. The top managers from large enterprises placed social-cultural influences third and political-legal fourth while managers from medium size organizations reversed this order.

A recurrent theme in comments of the top executives was that the various value systems "interact," "are blended and intermixed," and "are melded through expediency, experience, and background." While the executives felt these values were closely related to each other, they did not appear to have difficulty in ranking them. Several managers gave examples of how the values have played roles in their firms, e.g., strong religious views of the founder led a company to turn down
lucrative contracts connected with the brewing industry. Repeatedly, managers said that a business cannot long survive if it is not an ethical concern and recognized as such. One manager said ethical activity is necessary for survival and, even then, "is survival a satisfactory accomplishment? Unethical things ultimately surface and will have a measurable effect and a business or an individual will never reach the peak they could have."

Theory Statement

The theory of formal organization did not set forth any specific degree to which the various value systems are expected to influence managerial philosophy. However, the theory does anticipate that the influence will be very high. This factor was studied in an attempt to find a realistic answer to that point.

Question 8 B

To what extent do you believe a manager's managerial philosophy is influenced by his opinions on the values you checked?

Not at all
Moderately
Very little
Quite a bit
Totally

On a premise that managers would not want to express a certain percentage in saying how much a philosophy is influenced by value systems, this question was asked so as to avoid putting the manager "on the spot" over a minor point. However, in fact, several of the men interviewed did give a percentage figure.
Only two of the alternative answers were chosen by the interviewees. Eight men said a managerial philosophy would be influenced quite a bit by the various value systems. Three manufacturing respondents gave this answer, as did two finance men, and one from the retail, service, and non-profit types of organizations. Six of these eight men did give a rough percentage figure in defining their answers. These percentages ranged from a low of .75 to a high of 95.

Twelve interviewees said that a manager's philosophy would be totally influenced by the factors they had previously noted. Three men from retail, service, and non-profit categories so indicated as did two finance managers and one manufacturing executive.
The tenor of the responses even among those who gave a definite straight-forward answer was that there may always be unusual things which enter into a decision and it is difficult to identify everything which might play a part in the decision-making.

Fifty percent of the professional managers and 25 percent of the owners chose the alternative of "quite a bit." Logically, a higher percent of the owners (75%) answered "totally" than did the professional managers (50%).

Four men from large firms and four from medium size firms gave the response of "quite a bit." The vote breakdown was six and six in comparing answers from large and medium organization representatives on the "totally" alternative.

**Theory Statement**

The theory of formal organization suggests that managers try to balance, maximize, or satisfice the profit-making goal of the organization. No one of the philosophical profit goals was specified in the theory.

The following question presented three statements related to balancing, two related to maximizing, and one related to satisficing. The objective of this question was to determine whether the top manager considered himself to be more closely attuned to the balancing, the maximizing, or the satisficing philosophy.

**Question 8 C**

Which two of the following statements most closely resembles your views?
The goal of management is the optimum development of the opportunity to serve society, specifically the customers, the investors, the employees, and the community of the corporation.

A business enterprise does not exist solely for the benefit of any one group, neither customers, nor stockholders, nor employees, nor public, but the benefits for all groups must be in balance and that resulting benefits are the products of a well-run business.

A business should strive to obtain the maximum possible share of available markets for its products.

The company shall apply the Golden Rule to its relationships with customers, management, employees, stockholders, sales representatives, suppliers, government, and neighbors. The company has definite obligations to each.

It is the firm's objective to manufacture the best product possible and thereby earn the maximum return on investment for benefit of stockholders.

Management is responsible for operating the business at a fair profit that will give an attractive return on investment to stockholders and provide funds for future growth.

Each manager was asked to choose two statements; however, two retailers picked three items.

One of the balancing statements was chosen most often by receiving eleven votes. It was closely followed by a satisficing statement which obtained the support of ten men. The other two balancing statements received nine and eight votes respectively. The maximizing items received a total vote of four.

Among finance and service managers the satisficing statement received the greatest backing; among retailers a balancing statement was highest with a satisficing statement second; among manufacturing managers two balancing and a maximizing statement each received two affirmative responses; among non-profit executives one balancing statement won the support of four men while the other two balancing statements got two votes each.


<table>
<thead>
<tr>
<th>Statement #1--Balancing</th>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail</td>
<td>Mfg.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Statement #6--Satisficing</td>
<td></td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Statement #4--Balancing</td>
<td></td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Statement #2--Balancing</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Statement #3--Maximizing</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Statement #5--Maximizing</td>
<td></td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Within the types of organization there were two points of agreement. All retail managers said the fourth statement (a balancing item) resembled their viewpoints and all non-profit managers picked statement number one which was also a balancing item.

When analyzing responses on the basis of type of manager, the owners gave their support to a balancing and to a satisficing statement.
The professional managers strongly backed a balancing philosophy with the satisficing and another balancing statement tied for a distant second place. Over-all, then, the views of the professional managers appeared to be more similar to the total sample than were the expressed opinions of the owner managers.

Top executives from large enterprises divided their highest level of support between a balancing and a satisficing statement with each receiving six votes. Another balancing statement obtained the backing of five persons. Men from medium size structures most heavily favored (six votes) a balancing statement which, in contrast, was picked by only three large organization managers. Another balancing statement was chosen by five medium size enterprise managers and then, in third place, was the satisficing item with four votes. As in all other classifications, the maximizing statements were the least chosen. The balancing statements received the support of fourteen men from both the large and the medium size organizations.

**Theory Statement**

An organization has a multiplicity of objectives which include helping meet the objectives of the various groups contributing to its success. If, sometimes, the objectives of the contributors conflict, then management, influenced by its managerial philosophy, must make the decision about whose goals are to be given top priority.

**Question 8 D**

Please check the statement you believe is most accurate.

_____ The objectives of contributors to an organization may conflict and economic strength determines whose goals are given priority.
The objectives of contributors do conflict and it is management which decides whose goals are placed first. The objectives of contributors may conflict and it is management which decides whose goals are placed first. The objectives of contributors do not generally conflict.

Although the interviewees were asked to choose among four alternatives, three of the alternatives are sufficiently similar to treat them as one in the following discussion. These statements recognize the possibility of conflict among objectives of various contributors to the organization.

Non-profit managers were the only industry category to give unanimous support to the theory view that conflict may exist. Three service executives agreed that conflict is possible. Among the finance, retail, and manufacturing managers the response was 50 percent in favor of the theory position. Several managers brought out that profit is a major goal of the firm and, consequently, the firm must follow the path which will hurt the least. Normally, this means that management must first satisfy the objectives of those who contribute the most to the organization—often this contributor is the customer.

Six men including two finance managers, two manufacturing executives, and one man each from retail and service organizations said that contributors' objectives generally do not conflict. One of these finance executives felt that conceivably on small matters there might be some conflict but such a situation was unavoidable and not of major importance. A retail manager added that there is no conflict between, for example, higher wages for employees and higher dividends for shareholders. His firm tells employees that profit is not a dirty word and if the firm makes more money, it permits the employees to receive more.
### TABLE 31
**CONFLICT AMONG CONTRIBUTORS' OBJECTIVES**

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Manager</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance Retail Mfg. Service Non-Profit Total</td>
<td>Owner Professional Total</td>
<td>Large Medium Total</td>
</tr>
<tr>
<td><strong>Objectives Do Conflict and Economic Strength Determines Priority</strong></td>
<td>1 1 1 2 5</td>
<td>5 5</td>
</tr>
<tr>
<td><strong>Objectives Do Conflict and Management Determines Priority</strong></td>
<td>1 1 1 1 5</td>
<td>3 2 5</td>
</tr>
<tr>
<td><strong>Objectives May Conflict and Management Determines Priority</strong></td>
<td>2 1 1 4</td>
<td>1 3 4</td>
</tr>
<tr>
<td><strong>Objectives Do Not Generally Conflict</strong></td>
<td>2 1 2 1 6</td>
<td>4 2 6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4 4 4 4 20</td>
<td>8 12 20</td>
</tr>
</tbody>
</table>
The owner manager of a steel firm stated that objectives do not conflict although some persons think they do. Another executive did admit that occasional conflict may occur and then management determines how to resolve the matter.

In viewing answers on the basis of whether given by an owner or a professional manager, one finds that four of the eight owners recognized the conflict of objectives situation. On the other hand, ten of the twelve professional managers indicated an awareness of the conflict and priority problem. In percentages, the results show that 50 percent of the owners gave a response in keeping with the Hay theory while 83 percent of the professional managers took this position.

More executives from medium size organizations responded in a manner compatible with the theory than did representatives from large establishments. Eight of the ten men from medium size organizations saw the possibility of objective conflict and, in fact, six of them stated that the conflict does exist while the other two men only said that the conflict may come about. Six managers from large structures took a position similar to the theory. However, only four of them said that conflict does exist as contrasted to the six men from medium size organizations who so answered. In other words, not only did more managers from medium size organizations reveal a belief in the conflict possibility than did large organization managers, but they also were somewhat more definite in stating that the conflict does exist rather than that it can exist.
Summary

Eight factors basic to the theory of formal organization were studied and reported on in Chapter IV. Twenty-six questions were used during the interviews in gaining the top managers' opinions on these eight factors. On this and the following pages is a very brief question-by-question summary of answers to the twenty-six questions.

Factor One

Need Satisfaction

Sixty-five percent of the managers agreed with the theory that the fundamental purpose of an organization is to satisfy human needs.

From four groups of human needs eighty-five percent of the interviewees selected that group of needs most representative of the human needs spectrum as defined by Maslow.

Managers were asked to rank the needs as proposed by Maslow and, over-all, they did rank order them correctly. Six of the managers were able to put every one of the five needs in its correct sequence.

Factor Two

Contributors

The question related to this factor concerned the identification and the ranking of groups contributing to organization success. All managers agreed that the groups listed contributed something but, in the case of government, the contribution was generally considered to be minimal. The theory of formal organization did not set forth a
desired ranking of groups. This information was obtained as an item of interest. The eighteen managers who ranked the groups listed, in descending order of importance, the following: customers, management, employees, owners, suppliers, community-at-large, creditors, and government.

Factor Three

Reciprocity

Forty-five percent of the executives agreed that contributors feel they get back more than they give to the enterprise.

Factor Four

Goods and Services Having Utility

Managers were asked how peoples' needs are satisfied. Fifty-six percent of the responses were simply that needs are satisfied by a good or service having utility—the answer anticipated by the Hay theory. However, even though a smaller percent said that needs are satisfied by a good or service providing psychological satisfaction, most of the managers' statements left little doubt that they felt that psychological satisfaction usually plays a role in the choice of a good or service. In fact, for some things it is the most important factor.

As both the figures and the actual statements of the interviewees showed, there is very basic agreement on the idea of five types of utility being created during the production and distribution process. While most managers agreed that service utility exists, there was some sentiment for the view that service is really implied in the
other four forms of utility. Agreement with the five types of utility of time, form, place, possession, and service ranged from 85 percent to 100 percent.

Factor Five

Value of Goods and Services

Thirty-five percent of the managers agreed with the theory that value (as measured by market price) is set by both production cost and utility. Thirty percent of the executives said that basically competition sets prices. The executives who said that cost and utility determine value gave nebulous answers when asked which of the two were more important in influencing price. For some things cost was perceived as more important; for other items utility would play the main role.

Only 20 percent of the interviewees backed the viewpoint consistent with the theory studied regarding the identification of value as the primary determinant of the organization’s objectives. However, this poor showing is improved somewhat by the fact that 25 percent of the interviewees said that some form of public need was most influential in determining objectives.

Factor Six

Organizational Objectives

Twenty-five percent of the interviewees said that an organization normally has one major objective. The Hay theory states that there is a multiplicity of major objectives. Consequently, at least
25 percent of the managers disagreed with this part of the theory. Seventy-five percent indicate some degree of acceptance.

Most managers (85%) forthrightly stated that management primarily decides what the organization objectives will be. An additional manager in essence agreed but qualified his statement.

The top executives interviewed overwhelmingly agreed with that portion of the theory concerned with identification of organizational objectives. Except for the item concerning job security, they were definitely able to differentiate goals of an organization from goals of contributing groups.

In determining whether organizational objectives actually are considered as objectives in the enterprises of the interviewees, the results indicate a 75 percent or more affirmative response on six objectives, a support of 55 percent in one case, and 40 percent in two other instances.

Eighty percent of the respondents agreed with the theory that there should be a hierarchy of internal organization objectives beginning with company goals on down through individual worker goals. Except for the finance organization category in which only two men agreed with the theory, there was little difference in answers on the various bases of analysis.

Factor Seven

Personal Objectives

The answers show that there exists a high level of agreement by managers interviewed that the theory of formal organization is correct
in identifying customer objectives. On the basis of type of organization, type of manager, and size of organization no discernible differences existed in managers' responses to this question.

With the exception of an 80 percent support of an alleged goal of obtaining a desired share of the market, the interviewees strongly supported the personal managerial objectives which were included in the theory of formal organization.

Retail managers and professional managers showed the most agreement with the owner objectives identified by Hay's theory. However, over-all agreement ranged from a low of 85 percent on two objectives to a high of 100 percent on two more objectives.

Over-all support of employee objectives postulated by the Hay theory ranged from 50 percent to 100 percent with a definite tendency toward the higher level of agreement. Manufacturing executives showed the most agreement; owners and professional managers differed very little; top managers from large organizations revealed a greater level of acceptance of the theory position than did men from medium size firms.

Top executive acceptance of supplier objectives put forth by the theory ranged from 70 percent to 100 percent.

On the subject of creditor objectives, the executives accepted totally the goals set by the Hay theory.

The tenor of the executives' views on government objectives was in agreement with the theory investigated. Of the four items discussed, the percentage of acceptance was 100, 100, 90, and 60.
Relative to community objectives the consensus of the top executives was in keeping with the thesis of the theory of formal organization. However, a negative note was that one objective received only a 30 percent acceptance.

Factor Eight
Managerial Philosophy

All managers agreed that the sets of values suggested by the Hay theory do influence managerial philosophy and action. Over-all, executives said economic values were most significant, ethical-religious second, with political-legal and social-cultural values in third and fourth places. Eight interviewees said that the physical environment might be influential.

No differences existed in the responses given by managers from large and medium size organizations on the question of how influential were economic, ethical-religious, social-cultural, and political-legal value systems on managerial philosophy. Neither did a definite pattern appear when analyzing the responses the men from the five types of organization. On the basis of type of manager the figures show that professional managers were more willing than owner managers to allow for other factors influencing managerial philosophies.

The general thrust of the interviewees' answers indicates that the interviewees more closely held a philosophy compatible with balancing than with satisficing or maximizing.

On the question of whether objectives of contributors conflict, 70 percent of the interviewees said either that conflict does exist or
that it may exist--responses which mesh with the Hay theory of formal organization. The remaining 30 percent of the sample said objectives do not generally conflict--a viewpoint basically in opposition to the theory position.
CHAPTER V

TOP MANAGERS' RESPONSES TO QUESTIONS INVOLVING ORGANIZATION STRUCTURE

The theory of formal organization investigated proposes that the structure of the organization is formed after the organization objectives are known. Chapter IV reported managers' viewpoints concerning things which may affect the manager's determination of organizational objectives. Chapter V reports interview results on theory factors directly involving the organization structure. These factors are Internal Organizational Functions, Authority and Responsibility, Accountability, and Activity Achievement. In addition, a report on managers' reactions to three models of a formal organization theory is presented under the factor of Graphic Model of Hay Theory.

Factor Nine

Internal Organizational Functions

Theory Statement

If an organization is to achieve its objectives, it is essential that various kinds of work or functions be performed. Functions may be performed by managers or operative employees and are so classified.
Managerial functions involve the work of planning, organizing and controlling the business, while operative functions are those which employees perform and are in no way concerned with supervising others. Both kinds of functions are important to the accomplishment of organizational objectives.

Question 9 A

Objectives are accomplished by

- Performance of managerial and operative functions
- Performance of managerial functions primarily and operative functions secondarily
- Performance of managerial functions only
- Performance of operative functions only
- Other

This question elicited relatively short answers. Although several managers asked for a definition of operative functions, the managers seemed to be sure of their opinions.

Eleven men chose the answer anticipated by the theory—objectives are accomplished by managerial and operative functions. None of the five industry categories gave full approval to this choice. Only one service executive agreed with the theory; two men from finance and the non-profit business agreed while three from the retail and the manufacturing groups were part of the group of eleven. Eight managers agreed that both managerial and operative functions were necessary but they believed that managerial work was more important. The consensus of these managers was that someone must do the organizing and directing of work and that without such activity operative work would not get done, i.e., chaos would result. This general view may be compared with the outlook of those eleven men discussed previously. The eleven felt
that both types of functions were vital and that it was ridiculous to say one was more important than the other although it was generally agreed that some managerial work of necessity must precede operative work. One finance manager took a position somewhat in keeping with the eleven but he emphasized that objectives were accomplished by work and he would have none of the managerial and operative business.

\[
\text{TABLE 32}
\]

\text{ACCOMPLISHMENT OF OBJECTIVES BY FUNCTIONS}

\[
\begin{array}{cccccccccccc}
\text{Type of Organization} & \text{Type of Managers} & \text{Organization Size} \\
\text{Finance} & \text{Retail} & \text{Mfg.} & \text{Service} & \text{Non-Profit} & \text{Total} & \text{Owner} & \text{Professional} & \text{Total} & \text{Large} & \text{Medium} & \text{Total} \\
\hline
\text{Managerial and Operative} & 2 & 3 & 3 & 1 & 2 & 11 & 5 & 6 & 11 & 6 & 5 & 11 \\
\text{Managerial Primarily and Operative Secondarily} & 1 & 1 & 1 & 3 & 2 & 8 & 3 & 5 & 8 & 4 & 4 & 8 \\
\text{Managerial Only} & & & & & & & & & & & & \\
\text{Operative Only} & & & & & & & & & & & & \\
\text{Other} & 1 & & & & 1 & 1 & 1 & 1 & 1 & 1 & \\
\text{Total} & 4 & 4 & 4 & 4 & 4 & 20 & 8 & 12 & 20 & 10 & 10 & 20 \\
\end{array}
\]
Classed by the type of managers, analysis revealed that five of the eight owners and six of the twelve professional managers agreed with the theory. Three owners responded with the view that managerial functions are more important while five professional managers so stated. The executive who said work gets things done was a professional manager.

Of the ten men from large organizations, six accepted the theory position and four took the less popular view that managerial work was more important than operative work. Five top managers from medium size organizations helped make up the majority position. Four managers from medium size organizations represented half of those who voted for the alternative stipulating that operative work was secondary to managerial work. The professional finance manager who picked a third alternative was from a medium size organization.

**Theory Statement**

One way of classifying internal organizational functions is on the basis of their contribution to customer service. The first objective of an organization is to create utility for the customer who provides the revenue from which all other contributors are paid. Since the customer directly pays for time, place, and form utility, work directly concerned with the creation of these utilities is usually called a line function. Activities which facilitate the accomplishment of line functions may be classified as service functions. Service functions usually provide possession or service utility. A staff function also facilitates the work of other activities by giving advice only.
Question 9 B

Is there an essential difference in the broad type of work done by

(1) the manufacturing and marketing departments and (2) the legal department?
   _____ No   _____ Yes   What is the difference? ________

(1) the manufacturing and marketing departments and (2) the personnel department?
   _____ No   _____ Yes   What is the difference? ________

(1) the legal department and (2) the personnel department?
   _____ No   _____ Yes   What is the difference? ________

(1) the firm's consulting lawyers and (2) the firm's tax consultant?
   _____ No   _____ Yes   What is the difference? ________

This question was another of the few which required some explanation to the interviewees. Its purpose was to see if executives differentiated among the three kinds of internal organization functions. The over-all result suggested that the managers did recognize that basic differences existed among the work done by line, service, and staff activities.

All managers agreed that manufacturing and marketing work was different from work done by the legal department and that manufacturing and marketing work was different from that carried out by the personnel department. In explaining these differences, various managers stated that the difference was between line and staff (as they defined staff). Others said it was a question of producing departments versus service or support units. Still other answers included that it was direct versus indirect work, departments which create and those which do not, and working versus service departments. While managers did see the
differences between line and staff activities and between line and service activities, their answers, in these parts of the question, did not appear to consider that staff and service work were different from each other. To the managers, it was, basically, a difference between line and staff as they understand the terms.

**TABLE 33**

EXISTENCE OF A DIFFERENCE IN TYPES OF WORK DONE BY LINE, SERVICE, AND STAFF FUNCTIONS

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance Retail Mfg. Service Non-Profit Total Owner Professional Total Large Medium Total</td>
<td></td>
</tr>
<tr>
<td>Yes, Between Mfg/ Mktg and Legal Depts</td>
<td>4 4 4 4 4 20 8 12 20 10 10 20</td>
<td></td>
</tr>
<tr>
<td>Yes, Between Mfg/ Mktg and Personnel Depts</td>
<td>4 4 4 4 4 20 8 12 20 10 10 20</td>
<td></td>
</tr>
<tr>
<td>Yes, Between Legal and Personnel Depts</td>
<td>1 2 1 1 5 2 3 5 4 1 5</td>
<td></td>
</tr>
</tbody>
</table>

On the third portion of this question the above mentioned aspect of the managers' views was further seen. Only five men felt there was a difference between the work done by the legal and the personnel
departments. The reasons given by these five were somewhat indefinite. One man said the legal department was not creative like the personnel department. Another man said the difference was that the legal department was likely to handle external problems while personnel handled internal problems.

None of the top executives indicated that work done by consulting lawyers and tax consultants was dissimilar. This view was consistent with the theory of formal organization. Thus, on this part of the question, the theory is supported by all men.

Unanimity of acceptance of the theory position appeared in three of the four parts of the question. On the fourth part (dealing with a potential difference between the legal staff function and the personnel service function), two of the five men who did accept the theory were owners and three were professional managers. This same alternative was supported by four men from large organizations but only by one man from a medium size organization.

**Theory Statement**

The following question relates to the same theory points as the previous question.

**Question 9 C**

Which of the following best classifies the internal organizational functions?

- Line function creates time, place, and form utility.
- Service function creates possession, service, and advisory utility.
- Line function creates primary and facilitative utility.
- Service function creates possession and service utility.
- Staff function is advisory to line and service functions.
Line function creates time, place, and form utility for the customer. Service function creates service and possession utility for the line function. Staff function advises line and service functions (it creates a special kind of service utility--advice).

This question, in dealing with points about which the managers had not given much thought, seemed to pose some problem to some of the men. The problem may have been due to an initial unawareness of the meaning of primary and facilitative utility and of what was the purpose of the question. One man gave an unusable answer.

Only six executives chose the response (the third alternative listed) in keeping with the Hay theory. Of these six, none were from the retail or service categories and only one was from finance. The alternative which stated that the internal organization functions were of a line and a service nature received the highest number of votes--eight. Either one or two managers from each industry category chose this response. Finally, five managers set forth their own classification of internal functions. These five answers were, essentially, variations on the most popular answer. Generally, they consider internal functions to be classed as line and staff or line and service. The belief is that the line provides time, place, form, and possession utility. The point was made that marketing--a line function--provides possession to customers while purchasing--a service (or staff) function--provides possession of materials and supplies to the businessman. The managers do see that some activities provide advice and others provide a tangible service but the managers consider them essentially the same regardless of the labels.
### TABLE 34
CLASSIFICATION OF INTERNAL ORGANIZATIONAL FUNCTIONS

<table>
<thead>
<tr>
<th>Line Function Creates Time, Place, and Form Utility. Service Function Creates Possession, Service and Advisory Utility.</th>
<th>Type of Organization</th>
<th>Type of Manager</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail</td>
<td>Mfg.</td>
</tr>
<tr>
<td>Line Function Creates Primary Facilitative Utility. Service Function Creates Possession and Service Utility. Staff Function is Advisory to Line and Service Functions.</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Line Function Creates Time, Place and Form Utility for the Customer. Service Function Creates Service and Possession Utility for the Line Function. Staff Function Advises Line and Service Functions (It Creates a Special Kind of Service Utility—Advice).</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>
Further discussion with the executives brought out that they would not generally object to a three part classification of line, service, and staff functions but that it was hardly necessary and apparently little could be gained by splitting hairs.

Of the six men who took the position in keeping with the theory, one was an owner manager and of the five men who wrote out their own classification, one was an owner manager. Eight executives agreed with the line and service dichotomy and six of the eight were owners. Obviously, this was the answer most desired by owners.

On the basis of size of organization, the most popular response was supported by three men from large organizations and by five men from medium size organizations. The response consistent with the theory received the votes of six persons—three each from both sizes of organization. Three executives from large enterprises and two from medium size organizations gave their own function classification.

Theory Statement

The work of a manager includes six managerial functions. These six functions which all managers do to some extent are planning, organizing, acquiring, coordinating, actuating, and evaluating.

Question 9 D

Please check the following items which you feel are managerial functions.

____ a. Planning  _____ f. Evaluating
____ b. Manufacturing  _____ g. Organizing
____ c. Acquiring  _____ h. Marketing
____ d. Actuating  _____ i. Other _________
____ e. Coordinating  _____ j. None are functions
TABLE 35

THE MANAGERIAL FUNCTIONS

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Retail</td>
<td>Mfg.</td>
</tr>
<tr>
<td>Plan</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Evaluate</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Organize</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Actuate</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Coordinate</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Acquire</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Manufacture</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Market</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

The results from this question reveal that the over-all opinion meshes with the theory of formal organization which was studied. All twenty top managers identified planning, evaluating, and organizing as managerial functions. One finance manager did not consider actuating as managerial work but the remaining 19 men did. Coordinating was supported by 18 managers but two non-profit managers thought otherwise.
--one of them saying that coordinating was part of organizing. Acquiring was only chosen by three-fourths of those interviewed. This result appeared to be founded on the assumption that acquiring men is mostly the work of the employment department and acquiring materials is the responsibility of the purchasing department.

Six managers added a managerial function. One manufacturing executive added finance to supplement the manufacturing and marketing he had previously checked. (This respondent was joined by a service executive in identifying manufacturing and marketing as managerial functions.) Another manager emphasized the importance of training new people at all levels and a third manager just said "handling problems with people." The remaining three additions revolved around the function of participation in community activities. Other men also discussed this but did not list it as a managerial function.

As previously stated, three functions were supported by all managers. The nineteen who identified actuating as a function included all professional managers but only seven owners. On the other hand, all owners said that coordinating was management work while two of the professional men failed to do so. It was agreed by seven owners and eight professional managers that acquiring was within the realm of managerial work. Of the six men who added functions, four were professionals. The two executives who said manufacturing and marketing were managerial functions were both professional managers in large organizations.

Planning, evaluating, and organizing were, of course, chosen by ten men from both sizes of organization. In two cases, there were
more men from large than from medium organizations who chose a particular function. The function of acquiring was recognized by eight large organization managers and seven men from medium size enterprises. Actuating was picked by ten large organization men and nine medium organization men. Nine men from both sizes of structures identified coordinating as a major activity of management. Last, of the six men who added a function, five were from large organizations.

**Theory Statement**

In a properly run organization a diagram depicting the allocation of managerial time and energy among the basic managerial functions should approximate the following model.

**Management Level**

Top Management

Middle Management

Bottom Management

---

<table>
<thead>
<tr>
<th>Plan</th>
<th>Acq.</th>
<th>Org.</th>
<th>Actuate</th>
<th>Coordinate</th>
<th>Evaluate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Percent of Managerial Time and Energy

**Question 9 E**

Please diagram the amount of time and energy the various levels of management spend on the managerial activities you checked.
The most significant points gleaned from discussions concerning allocation of managerial time were that the managers had not given any thought to how their time was allocated and, after some consideration, were unable to confidently indicate how their own time was divided among basic managerial functions. Almost to a man, they said that they did not know how lower managerial levels allocated their time and energy. Nonetheless, the managers did sketch estimates of time allocations for managerial structures.

The twenty completed diagrams presented such a variety of thought that it is not possible to draw many conclusions. One conclusion, however, is that type of organization, type of manager, or size of organization appeared to have no influence on the managerial time allocations.

Twelve of the interviewees showed that they believed that planning occupied more managerial time than any other single function on the top and middle management levels. At the top management level it appeared that these twelve men considered planning to take approximately 40 to 50 percent of their time. Most of the managers interviewed complained that they were unable to spend nearly the amount of
time on planning that they should. They added that too often other problems occurred which required attention and since planning could be delayed, it was. Another point mentioned on several occasions was that planning is a continuous activity. Other managerial functions may cease upon leaving the office but planning occurs while driving home, while taking a bath, and while trying to get to sleep.

Another conclusion in support of the theory of formal organization is that there existed a tendency to allocate a small amount of time and energy to the function of actuating at the top management level and increasing amounts on down through the bottom management level.

In spite of the heterogeneity of responses regarding the functions of organizing, acquiring, coordinating, and evaluating, the managers, as a whole, left the impression that if they were shown a model depicting the "typically correct" allocation of managerial time, they would have conceded its basic accuracy.

One example of the managers' diagrams is shown below.

Management Level

Top Management

Middle Management

Bottom Management

FIGURE 7

ALLOCATION OF MANAGERIAL TIME AND ENERGY
BY A HOSPITAL ADMINISTRATOR
Theory Statement

An effective, efficient organization partly results from an adequate allocation of time and energy between managerial and operative work. In a stable, on-going firm, approximately 90 percent of the time and energy of all those at the top level is spent on managerial functions and approximately 10 percent on operative work. The percentages are reversed at the operative employee level.

Question 9 F

Please complete the diagram by drawing a line showing the amount of time and energy spent by all people at each level in your organization on the managerial and the operative functions. Please divide the portion of the diagram allocated to operative work into the main types of operative work found in your organization.

Example

Your Firm
The managers could not attempt to indicate exactly what the managerial-operative division was. They sketched out rough approximations. However, a review of the diagrams indicates that the managers showed, generally, a division of 90 percent managerial work and 10 percent operative work at the top level and 10 percent managerial work and 90 percent operative work at the employee level. Managers of all types of organizations were fairly consistent in their responses. Three executives said that managerial work accounts for 100 percent of the time and energy at the top level although in one instance this included some public relations work which might be more properly classed as operative activity. One executive appeared to indicate that managerial work required 80 percent of the time, two executives said 85 percent, and one said 75 percent. The remaining managers completed the diagrams to indicate percentages between 90 and 98 percent.

At the operative employee level, 10 percent managerial work and 90 percent operative work was suggested by eight of the top executives interviewed. Six managers indicated operative employees did no managerial work and three managers felt that a five percent allocation to managerial work was correct. One retailer and one non-profit manager showed that 20 percent for managerial work was about right and one finance manager said that 15 percent of the operative employees' time and energy was given to managerial type action.

This was another question in which there did not appear to be a discernible difference between answers given on the basis of type of organization, type of manager, or size of organization.
Those interviewed were also asked to give an estimate of how the operative time was used. Since the operative work necessary to provide a customer good or service varies with the specific business, only one conclusion may be drawn from the responses to this question. That conclusion is that the major operative functions performed appear to be related to the specific business activity of the organization rather than to any other variable.

**Factor Ten**
Authority and Responsibility

**Theory Statement**

In order for work to be accomplished by persons within the organization, someone must have authority to manage. In the normal course of events, this authority is delegated to various other persons within the enterprise. It must be delegated if work is to be done. A person who has authority has the right to perform certain work and when he accepts this delegated authority, he then becomes responsible (morally obligated) to do his best to achieve the relevant objectives.

**Question 10 A**

Please check any of the statements you feel are essentially correct.

- The terms authority and responsibility mean the same thing.
- Responsibility is the obligation to perform a function.
- Authority is the power to get things done.
- Authority is the right to perform a function.
- Delegation of authority is a prerequisite to the performance of the line, service, and staff functions.
### TABLE 36

**AUTHORITY AND RESPONSIBILITY**

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delegation is Necessary</td>
<td>4 4 4 4 4 20</td>
<td>8 12 20</td>
</tr>
<tr>
<td>Responsibility is an Obligation</td>
<td>4 4 4 3 3 18</td>
<td>8 10 18</td>
</tr>
<tr>
<td>Authority is a Right</td>
<td>4 4 2 4 4 18</td>
<td>7 11 18</td>
</tr>
<tr>
<td>Authority is a Power</td>
<td>2 2 1 1 6 2 4 6 3 3 6</td>
<td></td>
</tr>
<tr>
<td>Authority Means Responsibility</td>
<td>2</td>
<td>2 1 1 2</td>
</tr>
</tbody>
</table>

A fairly high level of agreement with the theory was revealed by the interviewees' answers to this inquiry. The four managers of each type of organization interviewed agreed that delegation of authority is necessary to perform the organization activities. One man qualified his statement by saying that "some" delegation is necessary. Several persons stated that delegation is necessary not only to accomplish work but also as a means to train subordinates. The managers generally gave the impression that they tried to delegate as much authority as possible.
Several executives indicated that they had authority or policy manuals and showed them to the interviewer. One service executive revealed a system not mentioned by any other interviewee. In this medium size firm the manual states that any manager should assume that he has complete authority to carry out his job unless there is a written restriction placed on him by his superior. The superior is to assume that he has delegated all necessary authority.

Eighteen of the executives agreed that responsibility is an obligation. Some, by way of elaboration, added that the obligation was a moral -- not legal -- obligation. One executive complained that responsibility was not an obligation. He wished that people could be obligated to carry out their job tasks completely. As things stood, an employee could disregard some of his responsibilities and have his job remain secure because of the tight labor market.

Two manufacturing executives failed to agree that authority is the right to perform work. Eighteen men did agree. One of the two indicated that authority is a right only if power goes with it. His expression was consistent with his prior statement that authority is power. The other manager who disagreed with the basic statement suggested that when authority is given, it is a job which is given and not a right.

Six top managers said that authority is power. One manager said that authority and power go hand in hand although one does not like to use the power. A department store owner said that persons having authority also have power. A manufacturing manager hesitantly agreed
with the statement and added "I would say authority is more the opportunity to get things done with the power coming from the individual, rather than bestowed upon him." Three managers just generally equated authority and power.

Two managers said that the terms authority and responsibility mean the same thing. However, as one of the two said, "I don't think you can have responsibility without giving authority so I would say 'yes' they are the same." Several of the other eighteen managers specifically mentioned that authority and responsibility ought to be equal but they did not feel the terms represented the same concept.

There were no truly significant differences in answers of owners and professional managers except, possibly, in regard to whether authority is power. Twenty-five percent of the owners accepted this position while 33 percent of the professional managers did so. The other statements and results were: authority means the same as responsibility—agreed to by one owner and one professional manager; responsibility is an obligation—agreed to by all eight owners but by ten professional managers; authority is a right—agreed to by seven owners and by eleven professional managers; delegation is a prerequisite to the accomplishment of functions—agreed to by all those interviewed.

Neither did size of organization appear to be particularly influential in determining answers. The two men who reported that authority means the same as responsibility were both from medium size organizations. On the question of whether authority is a right, only eight executives from medium enterprises agreed although all ten
executives from large firms agreed. The remaining three statements
drew equal support from both sizes of organization.

One of the points which ran through the remarks of many execu-
tives was that times have changed. An executive no longer can be
authoritarian even if he wants to be. Consequently, the concept of
power is outmoded. As one man said, "Power is a perversion of
authority."

Theory Statement

Authority emanates from two sources. Many persons receive their
authority from their superior as, for example, a foreman obtains author-
ity from the general foreman or the president from the board of direc-
tors. Each level in the organization delegates downward a certain
degree of authority. Individuals may also acquire authority from
their subordinates. This "bottom up" theory rests on the assumption
that a person officially in charge really has no authority to carry
out his decisions unless he has the cooperation of his subordinates.
Unless the subordinates want to help, then the superior's formal author-
ity is a useless hollow shell.

Question 10 B

Please check the most accurate statement.

____ An employee receives his authority (if any) from his
superior.
____ A manager's authority comes from his own leadership abili-
ties and actions.
____ Both superiors and subordinates are the sources of mana-
ergial authority.
____ Managerial authority comes from subordinates.
____ The source(s) of authority is (are) ____________________
### TABLE 37

**SOURCES OF AUTHORITY**

<table>
<thead>
<tr>
<th></th>
<th>Type of Organization</th>
<th></th>
<th>Type of Managers</th>
<th></th>
<th>Organization Size</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail</td>
<td>Mfg.</td>
<td>Service</td>
<td>Non-Profit</td>
<td>Total</td>
</tr>
<tr>
<td>From Superior</td>
<td></td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>From Superiors and</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Subordinates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From Subordinates</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>From Leadership</td>
<td></td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>20</td>
</tr>
</tbody>
</table>

Those managers who accepted the theory completely would have stated that authority comes from superiors and subordinates. In fact, three men (one each from the manufacturing, service, and non-profit categories) gave this response. The three did not feel that superiors and subordinates were equal sources of authority. One man said most authority emanates from superiors but that a certain amount is gained through leadership. Another manager stated that some amount of respect which evolves into authority is derived from the person the manager coaches. Such authority is not formal but, from a practical point
of view, is very real. The third manager indicated that authority is not absolute and will be recognized and will be effective when perceived by subordinates to be legitimate.

One finance manager stated that leadership is the significant source of authority. One finance and one manufacturing executive indicated that authority comes from subordinates. Three other managers gave their own statements of source which were, in their minds, different from the answers printed on the interview guide. A retailer spurned the superior as a source and said that stockholders delegated authority. A service executive stated that the individual is the source since authority gravitates to those who perform properly. Finally, a non-profit manager felt that an individual obtains authority by having skill and by being respected in the use of that skill.

Eleven top executives, however, maintained that the superior is the source of authority. The eleven were composed of two men from each type of organization except that there were three retailers. The comments of this majority were consistent. Some said authority came from the board of directors; others said the stockholders were the source. The consensus was that you cannot expect subordinates to have the power inherent in the giving and withdrawing of authority. Such a situation would be chaotic.

The eleven-man majority was made up of three owner managers and eight professional managers. The alternative compatible with the Hay theory found support in the views of two owners and one professional manager. One owner chose leadership as the source; one owner and one
professional manager indicated that subordinates constituted the fountainhead of authority; two professional managers and one owner manager gave their own sources.

The alternative with the greatest support was backed by seven votes from managers of medium size enterprises and four votes from executives of large firms. The other three managers from medium size organizations parceled out their votes with one each to three alternatives. The six large organization managers who did not support the superior as an authority source gave one vote to two alternatives and two votes to two alternatives.

Theory Statement

Authority may be classified according to the method by which it is acquired. One means of acquisition of authority is through the position held. If authority is acquired from the position, it may be further divided into various types: vested, implied, concurrent, committee, and special assignment.

Question 10 C

Please match the terms on the left, which are variations of authority allegedly acquired through the position held, with the descriptions of authority on the right hand column.

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. concurrent</td>
<td>authority which is generally written down for the particular position but is primarily inherent in the position</td>
</tr>
<tr>
<td>b. committee</td>
<td>certain rights which are not explicitly defined but are commonly understood to belong to the position</td>
</tr>
<tr>
<td>c. special assignment</td>
<td></td>
</tr>
<tr>
<td>d. vested</td>
<td>two or more persons have joint authority and must agree on a decision</td>
</tr>
<tr>
<td>e. implied</td>
<td></td>
</tr>
<tr>
<td>f. other</td>
<td></td>
</tr>
</tbody>
</table>
authority acquired by taking authority others have refused or abandoned

b a group of persons has the right to make decisions, usually on a majority vote basis

c a temporary right given to one or more persons to accomplish a special project
other

TABLE 38
CORRECT MATCHING OF TYPES OF AUTHORITY ACQUIRED THROUGH POSITION HELD

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance Retail Mfg. Service Non-Profit Total Owner Professional Total Large Medium Total</td>
<td></td>
</tr>
<tr>
<td>Vested</td>
<td>4 4 4 4 4 4 20 8 12 20 10 10</td>
<td>20</td>
</tr>
<tr>
<td>Implied</td>
<td>4 4 4 4 4 4 20 8 12 20 10 10</td>
<td>20</td>
</tr>
<tr>
<td>Committee</td>
<td>4 4 4 4 4 4 20 8 12 20 10 10</td>
<td>20</td>
</tr>
<tr>
<td>Special Assignment</td>
<td>4 4 4 4 4 4 20 8 12 20 10 10</td>
<td>20</td>
</tr>
<tr>
<td>Concurrent</td>
<td>3 4 4 4 4 4 19 7 12 19 10 9</td>
<td>19</td>
</tr>
<tr>
<td>Assumed</td>
<td>3 4 4 4 4 4 19 7 12 19 10 9</td>
<td>19</td>
</tr>
</tbody>
</table>

One finance manager who was an owner manager in a medium size organization incorrectly matched two of the six definitions of authority. All other executives accomplished the task correctly as defined by the theory.
As a complicating factor, the question included a definition of assumed authority which is not a type of position authority. Nineteen of the executives recognized that it could not be correctly matched with any of the names listed. Except for the finance executive who matched it with implied authority, the executives merely said it was some unnamed type of authority.

The only problem experienced by the executives in the matching was that half of them initially labelled committee authority as concurrent authority. However, when they came to the definition of concurrent they recognized the error and corrected it. The aforementioned finance manager was the sole person who did not change his mind. He labelled both concurrent and committee authority with the title of committee.

Theory Statement

Authority may be acquired not only through the position held, but also through personal leadership. Personal leadership authority may be divided into three kinds: expertise, earned, and assumed.

Question 10 D

Please match the terms on the left, which are variations of authority allegedly acquired from personal leadership, with the descriptions on the right.

a. earned  c. authority arising because of a person's intellect or specific knowledge in performing a function authority not officially granted but is generally accepted as being correct
b. assumed
c. expertise

____ d. other

____
authority derived from long tenure in the organization, from a wide experience—a general knowledge type of authority

authority acquired by taking on what fellow employees want no part of

TABLE 39
CORRECT MATCHING OF TYPES OF AUTHORITY ACQUIRED THROUGH PERSONAL LEADERSHIP

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail Mfg. Service Non-Profit Total Owner Professional Total Large Medium Total</td>
</tr>
<tr>
<td>Expertise</td>
<td>4 4 4 4 4 4 20 8 12 20 10 10 20</td>
<td></td>
</tr>
<tr>
<td>Earned</td>
<td>4 4 4 4 4 4 20 8 12 20 10 10 20</td>
<td></td>
</tr>
<tr>
<td>Assumed</td>
<td>4 4 3 4 3 18 8 10 18 9 9 18</td>
<td></td>
</tr>
<tr>
<td>Implied</td>
<td>1 2 2 1 1 7 4 3 7 3 4 7</td>
<td></td>
</tr>
</tbody>
</table>

This question contained four definitions of which three referred to types of personal leadership authority and one referred to the implied authority acquired from the position.

The names and definitions of expertise and earned authorities were correctly matched by every manager. The assumed authority definition was paired with "other" by two of the twenty executives. Seven
men recognized that the implied authority definition was not matchable with the names provided. Thirteen of the managers incorrectly said that the implied authority definition described assumed authority.

The seven managers who appropriately suggested that there was no name listed for implied authority were a group composed of four owners and three professional managers. The seven were further classed as three men from large organizations and four from medium size organizations.

The two men who failed to match correctly the name and definition of assumed authority were a professional manufacturing manager from a large firm and a professional non-profit manager of a medium size organization.

Theory Statement

The following question attempted to determine if the interviewees felt that some of the various types of authority they had just identified were of sufficient importance to give separate names to or if, from their views, all authority was identical.

Question 10 E

Are the types of authority described above (in the two previous questions) distinctive enough to be considered separately for different situations? Yes _____ No _____ If yes, please give four examples which reveal four of these different types of authority.

Seventy-five percent of those interviewed gave a response indicating agreement with the theory of formal organization that the distinction among the types of authority is valid. Three finance, three retail, three manufacturing, two service, and four non-profit managers indicated agreement with the theory.
### TABLE 40
AGREEMENT WITH DISTINCTIVE AUTHORITY TYPES CONCEPT

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance Retail Mfg. Service Non-Profit Total Owner Professional Total Large Medium Total</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>3 3 3 2 4 15 7 8 15 9 6 15</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>1 1 1 2 5 1 4 5 1 4 5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4 4 4 4 4 20 8 12 20 10 10 20</td>
<td></td>
</tr>
</tbody>
</table>

This agreement, however, was qualified in several instances by the managers' saying that while the distinction was valid, it was not basically relevant to their firms. On the other hand, this denial of relevance was sometimes punctured by being followed shortly by examples of some of the authority types. For example, the bank president said he saw the distinction but felt it was not pertinent to the bank. In the ensuing discussion he gave an example of the committee, implied, and special assignment authority. Fifteen managers did give from one to four examples of the different authorities used in their organizations. Those who offered less than four appeared to do so in the belief that the subject had been adequately covered rather than because they were unable to think of more examples.

Of the fifteen men who said that the authority distinctions were worthwhile, seven were owners and eight were professional managers.
The same fifteen were composed of nine representatives from large organizations and six from medium size organizations. Thus, the highest levels of agreement with the theory came from the non-profit managers, the owners, and from large organizations.

Factor Eleven
Accountability

Theory Statement

When authority to perform functions is delegated to a subordinate, the subordinate becomes responsible for achieving the objective. Also, the delegator of the authority normally requires the subordinate to account for how he uses the authority. Accountability is a measurement of how well functions to attain objectives have been carried out. Usually, subordinates are expected to make periodic reports on their progress toward the achieving of objectives. Progress reports or any means of evaluating a subordinate's performance may be in a multitude of forms.

Question 11 A

After authority has been delegated and responsibility created, the individual now with the authority should

_____ not have to report to the delegator
____ make progress reports
____ make only a final report on results
____ other ______________________

Not only did all managers agree that a subordinate should make progress reports, but the managers were emphatic about the point. There was no hesitancy in answering and the tones of voice were very positive and seemed to clearly indicate their position.
### TABLE 41

**REQUIREMENT FOR PROGRESS REPORTS FROM SUBORDINATES**

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Retail</td>
</tr>
<tr>
<td>Required</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Final Report Only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No Report Required</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

The nature of the business was felt to play a role in determining the frequency and comprehensiveness of reports. One finance manager generally concerned himself with monthly reports for most things. Another finance manager stated that on some things daily reports were necessary for effective control. A manufacturing manager said that he would like reports every five minutes but that was not remotely possible.

Other comments brought out that a manager does not delegate unless he has confidence in subordinates but that checking up is still required; that accountability is necessary because it is a way of protecting both the superior and the subordinate; that progress reports help the subordinate by forcing him to concentrate on the important
ingredients and by bringing potential mistakes to the superior's attention before grave errors are made. Finally, some managers said they require progress reports so they would not "lose their shirts."

**Theory Statement**

The following question determined how the executives asked subordinates to report on their use of authority and responsibility. Hay's theory of formal organization does not set forth any particular method as being the correct one for reporting on progress.

**Question 11 B**

If you measure a subordinate's progress in meeting his responsibilities, do you measure this by

- [ ] Observation
- [ ] Oral Reports
- [ ] Written Reports
- [ ] Profit and Loss Statement
- [ ] Other __________________________

All organizations use each of the above mentioned methods of obtaining progress reports. However, some methods were more frequently used by the specific enterprises and it is this fact which Table 42 relates.

Sixteen managers said they use some type of personal observation to determine if subordinates are using authority correctly so as to accomplish objectives. Several reasons were given for this desire to inspect personally. The main reason appeared to be that some subordinates would try to "pull the wool over your eyes every now and then" if the superior does not periodically show himself. Second, inspection trips provide a better understanding of problem situations which are reported and, third, personal visits encourage subordinate managers to maintain the over-all environment in an adequate manner.
### TABLE 42

**SUBORDINATES' MAJOR METHODS OF REPORTING ON PROGRESS**

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Total</td>
<td>Owner</td>
</tr>
<tr>
<td>Retail</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Mfg.</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>Service</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Non-Profit</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Owner</td>
<td>5</td>
<td>9</td>
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<tr>
<td>Professional</td>
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<td>7</td>
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<td>Total</td>
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<td>Medium</td>
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<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>

Of the four managers who did not use observation to a significant extent, one gave no reason, one was engaged in investment banking in which financial reports appeared far more appropriate, and two managers were in geographically dispersed firms so as to make personal observation too time consuming.

Profit and loss statements were a means of accountability in 13 of the 20 organizations. Three finance, retail, and manufacturing and two service and non-profit managers use the profit and loss statement (or the income and expense statement in non-profit organizations) as a major reporting tool. Except in two instances, the profit and loss statement acted mostly as a confirmation of what the manager already knew. In two firms, however, the statement was the main technique.
Oral reports were used by 11 managers. One finance executive often used them as did four non-profit managers, and two men each from retailing, manufacturing, and service. This means of reporting was favored in most instances because of its potential to reduce the paperwork load. The upper level managers obtained many of their oral reports during regularly scheduled staff meetings.

Nine executives (with three from the non-profit category being the highest number from any one type of organization) utilized written reports. Few of the interviewees referred to written reports other than those which involved a standardized format such as weekly sales reports.

Fourteen managers added another form of reporting--a budget. These organizations had budgets of all kinds. They had budgets for the firm, the department, the year, the month, the week, and the day. Some firms obtained monthly or weekly or even daily projected and actual sales and/or production figures. In some cases, all major machines in the plant were budgeted and the machines' daily production was computed and the cost analyzed so each shift worker would know how well he had done the previous day.

Answers classified on the basis of type of manager show that observation was more popular among professional managers (91%) than among owners (62%), oral reports were more popular among professional managers (66%) than among owners (37%), and budgets were also more popular among professionals (83%) than among owners (50%). Profit and loss statements, however, received the vote of 75 percent of the owners and only 58 percent of the professionals and, last, 75 percent of the owners and 25 percent of the professional managers used written reports.
Analysis of interviewees' responses shows that an equal number (7) of large and medium size organization managers used the budget as a main method of checking on subordinates. The profit and loss statement was reportedly used by seven medium size organization managers and by six large organization managers. The three other methods of accountability (observation and written and oral reports) found that more executives from large size organizations than from medium size organizations favored them.

Factor Twelve

Activity Achievement

Theory Statement

If the objectives of the organization are to be met, various work functions must be performed. These functions are composed of the entirety of the mental and physical activities necessary. These essential activities, performed at all levels, are what actually achieves the satisfaction of human needs through the creation of utility.

Question 12 A

Please check the most nearly accurate statement.

_____ Physical activities are essentially unimportant in the accomplishment of objectives which, in turn, fulfill the needs of contributors to the organization.

_____ The whole group of activities performed by lower echelon employees is of limited significance relative to what upper echelons do.

_____ Properly carried out activities influence the value of a good and/or service, its utility, and its ability to satisfy needs.

_____ Activities, performed by operative employees, help achieve customer objectives through the production of value which is determined by the social-cultural system.
TABLE 43

ROLE OF ACTIVITIES IN OBJECTIVE ACHIEVEMENT

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Manager</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Retail</td>
<td>Mfg. Service</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Properly Carried out Activities Influence the Value of a Good and/or Service, its Utility, and its Ability to Satisfy Needs

Activities, Performed by Operative Employees, Help Achieve Customer Objectives Through the Production of Value which is determined by the Social-Cultural System

The Whole Group of Activities Performed by Lower Echelon Employees is of Limited Significance Relative to what Upper Echelons do

Physical Activities are Essentially Unimportant in the Accomplishment of Objectives which, in turn, fulfill the Needs of Contributors to the Organization

Total: 6 4 4 4 4 22 9 13 22 10 12 22
The overwhelming majority of managers chose the third alternative which was the one most in keeping with the theory of formal organization. There were seventeen votes in favor of it with only one manager each from finance, retail, and non-profit organizations failing to choose it. Since each of the alternative answers revolved around the role of activities and the executives were asked to choose the best one, the executives tended to follow a process of elimination. The third alternative was chosen by most managers because it seemed to be the most nearly accurate, because it was more "honest" or positive, and because there was something apparently wrong with the other alternatives.

The first alternative was rejected because the managers felt that physical activities have an important, not a moderate, effect on the achievement of objectives. The second alternative was considered to be plainly incorrect because activities performed by lower echelon employees are usually of great significance. The investment banking-brokerage house owner manager said that this alternative would apply to his business but that the fourth alternative would be the appropriate one for most other enterprises.

The fourth alternative listed in the question was viewed in a favorable light by many of the managers. It was not chosen more than four times because the third alternative seemed more positive and because the fourth one referred only to operative employees which implied that management was not important and this view was not perceived as being correct. This last alternative was chosen by one non-profit manager, one retailer, and by two finance managers. The last two also chose an additional alternative.
Six owners and eleven professional managers were the seventeen who supported alternative three. The four men who checked the fourth alternative were two owners and two professional managers.

All ten executives from large size organizations chose the alternative most compatible with the theory investigated. They were supported with seven votes from executives of medium size structures. One medium size organization manager checked the first alternative and four medium organization votes were given to the fourth alternative.

Factor Thirteen
Graphic Model of Hay Theory

Theory Statement

The following question determined if the managers agreed with the theory of formal organization as briefly outlined in a schematic drawing.

Question 13 A

Please identify that chart, if any, which outlines an organization theory with which you basically agree.

(See following three pages.)

Model B presented an organization theory outline which was based on Hay's theory. Ten votes were cast for this model of which one was from a non-profit manager, two each by finance, manufacturing, and service managers, and three by retail managers.

Regardless of which model they ultimately chose, the majority of the executives indicated that they felt the models were very similar and that none of them were essentially wrong. Models B and C were clearly the favorites and more than one executive found it difficult to choose between the two.
A. Company Goals are set by Customer Objectives which determine Functions requiring Accountability through Responsibility Authority to perform Activities
Human Needs are satisfied by Goods and Services requiring which have Cost of Utility Production Value which become Objectives accomplished by performing Functions with the required Accountability Responsibility Authority Responsibility to perform Activities Organizational Structure
C.

Customer Objectives

are achieved by

Goods and Services

having

Cost → Value → Utility

accomplished by performing

Functions

with the required

Accountability → Responsibility

Authority → Accountability
to perform

Activities
TABLE 44
MANAGERS' ACCEPTANCE OF THREE MODELS OF ORGANIZATION THEORY

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Type of Managers</th>
<th>Organization Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance Retail Mfg. Service Non-Profit Total Owner Professional Total Large Medium Total</td>
<td></td>
</tr>
<tr>
<td>Model C</td>
<td>3 3 2 2 1 11 4 7 11 4 7 11</td>
<td></td>
</tr>
<tr>
<td>Model B</td>
<td>2 3 2 2 1 10 5 5 10 6 4 10</td>
<td></td>
</tr>
<tr>
<td>Model A</td>
<td>1 2 3 1 2 3 1 2 3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6 6 4 4 4 24 10 14 24 11 13 24</td>
<td></td>
</tr>
</tbody>
</table>

Model B was chosen in several instances because it appeared to be more comprehensive than the other models. Three managers voiced their approval of the role that the value systems played in Model B. On the other hand, four managers said that managerial philosophy also affects how a manager uses authority and responsibility and Model B did not appear to reveal that influence.

Model C received the most votes—11. (There were a total of 24 votes since three men said two or more models were valid.) Supporting Model C were one non-profit manager, two men each from manufacturing and service organizations, and three men each from finance and retail enterprises. While one manager said he liked Model C because it showed
that value systems affected the entire organization, the bulk of justification for choosing C was that there really was nothing wrong with it and it appeared considerably less complex than the other models.

Model A was approved by three executives of which one said all the models represented truisms. One of the non-profit managers chose A because it seemed to emphasize company goals and accountability although he stated that further reflection might have led him to choose B. The other non-profit manager who picked Model A did so because of its implication that company goals are set in relationship to the environment in which the organization operates. The external world as it embodies all the contributing groups is of great importance.

Of the three votes for Model A, one was from an owner and two from professional managers. Model B was supported equally by owners and professional managers with five votes from each group. The most popular model---C---gained the hesitant approval of seven professional managers and four owner managers.

Model C was similarly supported with four votes from men of large organizations and seven votes from men of medium size organizations. The Model B which was the one consistent with the theory investigated was accepted by six men from large enterprises and four from medium size structures and Model A was chosen by one man from a large business and by two men from medium size organizations.

**Summary**

**Factor Nine**

**Internal Organizational Functions**

Although only 55 percent of the interviewees chose the answer most compatible with the theory, viz., that both managerial and
operative functions are required to achieve objectives, another 40 percent held a similar view. Only they felt that managerial work was at least a little more vital.

In an attempt to ascertain if managers recognized differences in the broad types of work done by line, service, and staff functions, a four-part question was asked of the interviewees. The answer deemed correct by the theory was unanimously accepted on three of the four parts. The fourth part which concerned differentiation between staff and service functions was accepted by only 25 percent of the sample.

Six executives representing 30 percent of the total sample agreed that internal organizational functions probably should be considered on the basis of line functions providing time, place, and form utility, of service functions providing service and possession utility, and of staff functions providing the special service utility of advice. An underlying view was that a two-fold classification of line functions and staff or service functions was adequate to get the work done.

Of the six managerial functions (plan, acquire, organize, coordinate, actuate, and evaluate), three were recognized by 100 percent of the interviewees, one by 95 percent, one by 90 percent, and one by 75 percent. On the negative side, 10 percent identified manufacturing and marketing as managerial functions— a position contrary to the Hay theory.

Because of the great variety of answers to the question regarding how managerial time and energy was allocated among the managerial functions, no determination can be made concerning top management acceptance of the theory. On two of the six basic functions (planning
and actuating), there was basic agreement. On the other functions the
diversity of answers precludes a positive response.

Top executives were asked to estimate how much time and energy
each level in the organization spent on managerial and operative types
of work. Over-all, the managers' views were compatible with the theory
which suggests a division of 90 percent managerial work and 10 percent
operative work at the highest organization level. Fifteen managers
gave estimates apparently indicating between 85 and 95 percent of the
top management time and energy is spent on managerial functions. At
the operative employee level, the theory states that the division
should be approximately 10 percent managerial work and 90 percent oper-
ative work. Twelve managers gave estimates apparently indicating be-
tween 5 and 10 percent of operative employee time and energy is spent
on operative work.

Factor Ten

Authority and Responsibility

The bulk of managerial opinion supported the theory of formal
organization in regard to authority and responsibility. Ninety percent
agreed that the terms authority and responsibility do not mean the same
thing although they do go together. Seventy percent agreed that author-
ity is a right to perform a function. Also, 90 percent accepted the
statement that responsibility is an obligation. All managers agreed
that delegation of authority is necessary for an organization to func-
tion; a large number of the executives emphasized that they tried to
delegate as much as possible.
Fifty-five percent of the sample suggested that the source of authority is the superior. The professional managers predominantly favored this position as did the managers of medium size organizations. The response in keeping with Hay's theory (both superiors and subordinates are the sources of authority) was accepted by only 15 percent of the sample.

Except for two small deviations by one man, the twenty top managers were able to match correctly definitions of the various types of position authority with the appropriate authority names of implied, concurrent, vested, special assignment, and committee.

Over-all, the managers experienced no difficulty in matching the names and definitions of the types of personal leadership authority. However, 65 percent of the men incorrectly labelled implied authority as assumed authority.

When asked if they felt that the various types of position and personal leadership authority were distinctive enough to be considered separately, 75 percent of the sample answered affirmatively and, thus, agreed with this part of Hay's theory. They discussed a variety of examples of how these types of authority were used in their own organizations.

Factor Eleven

Accountability

Each top executive immediately agreed that a subordinate should make progress reports to his superior. In some cases reports are required as a means to help determine organizational activity and morale,
in others as a means to help train the subordinates, and in other instances, as a formalized means of control to keep the firm within policy and budgetary guidelines.

All forms of reporting are used by subordinates to account for their actions. The most popular form was that of personal observation by a superior. Ninety percent of the managers said that this was a main technique. The second most used means of evaluating subordinates was through comparing performance against budgeted figures. The profit and loss statement was the third most used evaluation method; however, it was primarily utilized as a supplement to some other accountability method.

Factor Twelve

**Activity Achievement**

When asked to pick the most nearly accurate statement from four statements dealing with the role of activities in an organization, 85 percent of the managers chose the answer most in keeping with the theory of formal organization—"Properly carried out activities influence the value of a good and/or service, its utility, and its ability to satisfy needs."

Factor Thirteen

**Graphic Model of Hay Theory**

When asked to choose a schematic drawing which outlined an organization theory of which they approved, 50 percent of the top executives interviewed chose the Model B drawing which expressed the basic tenets of the theory investigated. However, 55 percent
(some executives chose more than one drawing) picked the Model C drawing which was similar to the Hay theory but was not as comprehensive. The majority opinion was in favor of a theory outline which was not consistent with the Hay theory.
CHAPTER VI

SUMMARY AND CONCLUSIONS

Introduction

Formal organization theory has been developing for many years. Theory has evolved from the classical or traditional school through the scientific management and behavioral schools and into the open system era. Although some business managers have turned to writing, most of the work on theory is the product of the academician who has often failed to inquire about the soundness of his theories when, and if, they are applied. The opinions of the businessman practitioner for the most part have been ignored. This fact may well account for the fact that there is no generally accepted theory of formal organization.

Dr. Robert D. Hay has developed a comprehensive theory of formal organization which appears to have the capability of being accepted by a majority of theoreticians and contemporary managers. Much of this theory is traditional, but it also incorporates distinctive qualities which other old and new theories overlook.

The purpose of this study was to determine to what extent a sample of top level executives—business practitioners—indicated agreement with the basic factors of this comprehensive theory of formal organization.
Research Methodology

Because the required data was qualitative and a large number of questions was necessary to obtain the data, personal interviews were used. Interviewing also permitted clarification of terminology if necessary, probing of interviewees' responses, and assurance that respondents were high level managers.

The sample of twenty managers was chosen to obtain representation from a variety of businesses. The organizations were selected with four managers from each of the fields of finance, retailing, manufacturing, service, and non-profit. The sample was further arranged to assure that half the profit-making enterprises were represented by managers who also had a substantial financial investment in the firm and that half the profit-making businesses were represented by managers who were not in an ownership position. None of the non-profit organizations included owner managers. Ten organizations with medium size organization structures and ten with large structures were selected for the sample. Lastly, the sample was structured to include managers of organizations which operated on a multi-state basis, on a statewide basis, and on a predominantly local basis.

Each interview required a minimum of two hours. To assure that all major points were discussed, an interview guide was developed, tested, and used. Discussions revolved around the 41 questions on the guide.

Limitations to the Study

Since the small sample was not randomly chosen, conclusions cannot refer to the total population. Since managers from only five types of
industry were included in the sample, other fields of business activity were excluded.

Although no manager refused to be interviewed, a larger sample might have discovered less cooperative managers with views decidedly different from the opinions obtained in this investigation.

The data are highly qualitative. Current opinions were obtained and these opinions may change. Further, to some extent, the managers' opinions were subjectively interpreted and evaluated by the interviewer. Occasional interpretation was applied to what the manager did not say as well as what he did say. The elements of subjectivity in the data are not conducive to quantification and attendant statistical analysis.

Conclusions

A factor-by-factor summary of the interview results and conclusions based on these results are reported in this section. Figure 8, preceding the discussion, is a chart showing the approximate level of acceptance, by the business practitioner, of the various theory points investigated in this study. The degrees of acceptance are indicated only in general terms on a five part scale ranging from Not Accepted to Accepted. In addition to showing the acceptance of the specific theory points, under the heading of Total Factor Acceptance the chart summarizes, into an average, the level of over-all acceptance of each factor. Finally, the Total Factor Acceptances are averaged into an Over-all Theory Acceptance to indicate the general extent that a sample of top managers agrees with the theory of formal organization.
Theory Factor Investigated

Need Satisfaction
- Satisfaction of human needs as fundamental purpose of organization
- Maslow classification of variety of human needs
- Need hierarchy ranking

Contributors
- Identification of contributors

Reciprocity
- Contributors achieve a return greater than their contribution

FIGURE 8

GRAPHIC SUMMARY OF THE 20 MANAGERS' ACCEPTANCE OF THE HAY THEORY OF FORMAL ORGANIZATION

(Continued on next page)
Theory Factor Investigated

Goods and Services Having Utility

Need satisfaction achieved by good or service having utility

Five basic types of utility are time, place, form, service, and possession

***Total Factor Acceptance

Value of Goods and Services

Value (market price) is determined by both production cost and utility

Value is the primary determinant of organizational objectives

***Total Factor Acceptance

Organizational Objectives

Organizations have multiple major objectives

Management primarily decides on the organization objectives

Identification of organization objectives
Theory Factor Investigated

<table>
<thead>
<tr>
<th></th>
<th>Not Accepted</th>
<th>Partially Accepted</th>
<th>Moderately Accepted</th>
<th>Generally Accepted</th>
<th>Accepted</th>
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<tbody>
<tr>
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<td></td>
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<td>There should be a hierarchy of internal organization objectives</td>
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</tr>
<tr>
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</tr>
<tr>
<td>Personal Objectives</td>
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</tr>
<tr>
<td>Identification of customer objectives</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Identification of manager objectives</td>
<td></td>
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</table>
Top Managers' Acceptance of Theory

<table>
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<tr>
<th>Theory Factor Investigated</th>
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<th>Moderately Accepted</th>
<th>Generally Accepted</th>
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## Top Managers' Acceptance of Theory

### Theory Factor Investigated

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<th>Internal Organizational Functions (continued)</th>
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Top Managers' Acceptance of Theory

Theory Factor Investigated

Accountability
- Requirement of progress reports from subordinates

***Total Factor Acceptance

Activity Achievement
- Role of activities in objective achievement

***Total Factor Acceptance

Graphic Model of Hay Theory

OVER-ALL THEORY ACCEPTANCE

FIGURE 8 (Concluded)
Need Satisfaction

The consensus of those interviewed indicated substantial acceptance of that part of the Hay theory which relates to need satisfaction. On two questions the professional managers gave responses closer to the theory than did owner managers. In fact, only four of the eight owners recognized need satisfaction as the basic purpose for the existence of an organization; three owners specified profit-making as the reason for being and one owner specified achievement of personal objectives. The conclusion is that managers with a significant monetary interest in the organization are less oriented to an organization philosophy based on the satisfaction of human needs and more oriented to a dollar philosophy than are professional managers.

On this factor of need satisfaction, the conclusion is that there is over-all acceptance of the theory and that, on the various bases of analysis used in the study, there are no definite differences of opinion except for the point relative to owners not being particularly oriented to a need satisfaction philosophy.

Contributors

All of the managers interviewed identified customers, management, employees, owners, suppliers, community, creditors, and government as being groups which contributed to the organization. In this respect, they were completely in support of the theory. The executives were asked to rank contributors on the basis of their importance to the organization's success. The Hay theory does not propose any specific ranking. Eighteen managers did rank the contributors and the over-all rankings were in the order as shown at the beginning of this paragraph.
The interviewees' reactions lead to the conclusion that customers, management, and employees are definitely considered by those sampled to be most important to an organization.

Reciprocity

Approximately half of those managers interviewed said that contributors feel they get back a return equivalent to their contribution. This response was not the one anticipated by the theory. The Hay theory proposes that contributors expect to obtain a return greater than the contribution. Only about half of all interviewees agreed.

The conclusion is that managers do not really understand that people are induced to give to the organization by the expectation that they will gain net benefits by doing so. Apparently the managers have failed to grasp the concept that an individual has very little reason for taking on a burden if he does not perceive that he will gain from this responsibility.

Goods and Services Having Utility

There were two questions pertaining to utility. Answers to one of the two suggested that only half the sample accepted the theoretical position, and answers to the other question revealed a very high level of acceptance of the theory. The theory stipulates that need satisfaction is achieved through the creation of a good or service having utility. Since a majority of the managers chose this answer, the conclusion is that most managers agree with the theory but that the strength of that agreement is weak.

There was a high level of agreement with the theory that time, place, form, possession, and service utility are created in the process
of producing and distributing a good or service. There did not appear to be any notable differences in answers among the various classifications of respondents. The conclusion is that this factor of the Hay theory is accepted in the opinion of the business practitioner.

Values of Goods and Services

The theory proposes that value of goods and services (as measured by market price) is primarily determined by both the cost and the utility of the good or service. Approximately one-third of the managers agreed with the theory; however, approximately another third of the managers said that competition sets the price.

On none of the bases of classification were the managers' responses especially favorable as far as the theory is concerned. The most favorable answers came from non-profit managers, professional managers, and managers from large enterprises. Still, only a total of seven men answered according to the theory.

Those executives who stated that both cost and utility determine value were asked which of the two were more important. The general belief was that cost sets the minimum price and that competition determines the maximum.

The conclusion relative to this factor is that the theory position is not widely accepted and that managers do not consider how prices are set except to the extent that they vaguely feel that in the long run costs must be met and that, ultimately, competition will force market prices down to a fair level.

One question attempted to determine the managers' opinions as to what is the primary determinant of objectives. The theory proposes that
the values of goods and services to be created determine the organizational objectives. Based on the answers given, the conclusion is that the managers are not outwardly sympathetic toward the view that values are the determinants of objectives. Indeed, one-half of the managers stated that the owners' personal goals were the main determinant. This was a question of a theoretical or abstract nature and the interviewees may not have truly understood it. Nevertheless, the responses were negative in the context of the theory.

Organizational Objectives

Although it does not propose a specific number, the theory investigated suggests that contemporary organizations have more than one major objective. Three-fourths of the managers indicated that organizations had two or more major objectives while four-tenths of the men reported that three or more objectives would be accurate.

Another question concerned the group which determined the organization's objectives. Seventeen managers agreed with the theory that management is the primary group which does this.

Interviewees were requested to identify some typical organizational objectives from a list of eight items. All managers accepted the theory position that the making of a fair profit, adequate return on investment, continuity of the enterprise, and customer service were legitimate objectives. Nineteen men agreed that being an industry leader was also a common objective.

The theory stipulates that within the organization there should exist a hierarchy of objectives with major organization objectives
being at the top of the hierarchy and individual worker objectives being at the bottom. Seventeen of the managers agreed with the theory that there should be a hierarchy and sixteen accepted the proposed hierarchy which considers individual workers objectives to be subordinate to major objectives of the organization.

The conclusion is that those sampled basically do agree with the theory on the matter of whether an organization has multiple objectives, that management decides what the objectives will be, that there should be an established hierarchy of internal objectives, and that the organizational objectives posed by the theory are typical.

**Personal Objectives**

The top executives who were interviewed were asked to identify normal personal objectives of the various groups which contribute to the organization. These include the customers, managers, non-managerial employees, suppliers, creditors, owners, community, and the government. Every category of manager showed a high degree of acceptance of the theory. The least amount of agreement was related to objectives of the community and this was due to the fact that of the four valid objectives listed, one (a desire for adequate information about the firm's activities) received the support of only six managers. The conclusion is that the proposed theory of formal organization is accepted by the interviewees.
Managerial Philosophy

The Hay theory suggests that managerial philosophies are primarily influenced by four broad sets of value systems—economic, ethical-religious, political-legal, and social-cultural. The managers agreed that these values do influence the managerial philosophy, and it was also agreed that the values were comprehensive enough to include all significant factors. As a point of interest the executives were asked to rank the values on the basis of their influence on the managers' philosophy. The over-all results were, in descending order of importance (1) economic, (2) ethical-religious, (3) political-legal, and (4) social-cultural.

Managers were asked to choose statements which most nearly reflected their philosophies. A statement suggesting a balancing type of orientation received the most support while a satisficing type was ranked a close second. Maximizing was ranked third.

The theory states that conflict among objectives of contributors is likely to exist. Most managers agreed.

The results of investigation of this factor of managerial philosophy permit concluding that there is, at least, general acceptance of this factor of the theory of formal organization.

Internal Organizational Functions

Eleven managers agreed that objectives are accomplished by both managerial and operative employee functions. The conclusion is that those managers interviewed realize that both managerial and operative work is necessary, but there is disagreement as to whether managerial and operative work are of equal importance.
Two questions related to line, service, and staff functions and the types of utility primarily created by each function. The interviewees did recognize that there are basic differences between the work done by line and service or staff functions. Only one-fourth of them, however, felt that there was a difference between service and staff functions. When asked to relate types of utility to basic functions, less than one-third of the men picked the alternative answer anticipated. While an equal number were from large and from medium size organizations, a considerably higher percentage of the professional managers than the owners chose the anticipated answer.

The interviews definitely permit the conclusion that the managers prefer the standard division of functions into line and staff (or service). They see little reason to have a three part division of line, service, and staff.

There was general agreement by the interviewees with the managerial functions of planning, organizing, acquiring, coordinating, acting, and evaluating as set forth by the theory.

The executives were also asked to allocate managerial time and energy among the functions. The responses to this request were varied, but on some functions they answered similar to what the theory proposed. They were further requested to divide organizational time and energy between managerial and operative functions. Answers to this request were generally consistent with the theory.

Relative to facets of organizational functions, the conclusion is that the managers do support the Hay theory.
Authority and Responsibility

A substantial majority of the top executives accepted the theoretical position regarding the meaning of authority, responsibility, and accountability and the necessity for their delegation.

A little over half of the managers said that authority comes from the superior. Professional managers and managers from medium size organizations were the supporters of this position. Three men gave an answer consistent with the theory. They said that authority emanates from both superiors and subordinates.

Except for a few instances, the managers correctly matched types of position and personal leadership authority with their abbreviated descriptions. Three-fourths of the managers agreed that it was worthwhile to distinguish between position and personal leadership authority.

The conclusion relating to this factor is that the Hay theory is generally accepted in the eyes of those interviewed. However, with such a low favorable reaction to a suggestion that authority comes from subordinates as well as superiors, another conclusion is that the managers do not accept this specific part of the theory factor.

Accountability

The managers unanimously agreed with the theory that subordinates should be required to report periodically on their progress in carrying out an assignment. This reporting may be in a variety of forms with progress measured with the aid of budgets being a popular technique. Eighty percent of the managers reported that they employed personal observation as a major means of checking on subordinates. The feeling
was that regardless of how competent a subordinate is, the manager must still check personally just to keep the subordinate "on his toes."

The interviews lead to the conclusion that managers do accept the accountability factor as a part of the theory of formal organization.

**Activity Achievement**

Seventeen managers identified, as most nearly accurate, a statement which correctly outlined the role of physical and mental activities in the organization as defined by the theory. The conclusion is that the managers recognize that both managers and operative employees provide these vital activities in the process of creating a good or service which ultimately will satisfy a human need.

**Graphic Model of Hay Theory**

When the executives were asked to choose a graphic theory model with which they basically agreed, ten of them identified as organization theory model which reflected basic points of the Hay theory. The figure suggests that the Hay graphic theory model is not widely accepted. Conclusions based on this fact must be qualified by the understanding that some interviewees, by their own admission, were influenced by things such as the symmetry of the model. The conclusion is, therefore, that managers generally appear to support the theory, but that they do not recognize it in graphic model form.

**Over-all Theory Acceptance**

Of the 12 general factors of the theory which were investigated, one could be generally considered as partially accepted by the top managers, one as moderately accepted, five as generally accepted, and
five as strongly accepted. The graphic model of the Hay theory was considered to be the most desirable of three models by one-half the managers. The conclusion is that, over-all, the theory of formal organization is generally accepted by the sample of top level executives interviewed in this study.

**Recommendations for Future Study**

This study obtained data from lengthy personal interviews with a top level manager in twenty organizations. While a variety of types of organization including those in local, state, and national business were in the sample, further investigation of the same points of theory would be worthwhile if they were to be asked of other business managers in other sections of the country and in a greater number of large and small businesses.

Some parts of the Hay theory were only moderately accepted. These facets should be investigated again and investigated more thoroughly. Eventually, these portions of the theory should be either discarded as irrelevant or inaccurate or they should be doubly emphasized in the instruction of organization theory students. Students should have a complete and a sound theory framework from which to operate.

This study covered the main portions of a comprehensive theory of formal organization. The less important parts of the theory should also be investigated.
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A THEORY OF FORMAL ORGANIZATION AND ITS ACCEPTANCE

BY THE BUSINESS PRACTITIONER

Abstract of dissertation submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy

by

Edgar Thomas Busch
B.S., Indiana University, 1955
M.B.A., University of Denver, 1958

1970
The University of Arkansas
This abstract is approved by

Robert D. Hay
ABSTRACT OF DISSERTATION

Formal organization theory has evolved from the traditional school of thought through the scientific management and behavioral schools and into what is currently called open system theory. In spite of voluminous writing by the academician, no school of thought or no theory has been universally accepted. This may be due to the failure to consult the businessman who interprets and applies theoretical concepts to the practical situation. The purpose of this study was to help clear the theory jungle by determining the extent to which a sample of business practitioners agreed with basic factors of a comprehensive theory of formal organization developed by Dr. Robert D. Hay.

The Hay theory states that organizations are established to satisfy human needs and wants. Various goods and services are created by organizations to satisfy the many groups which contribute to the organization. The contributors are customers, management, non-managerial employees, creditors, suppliers, owners, government, and community. The goods and services have value (because of the production cost and utility) to each of the contributors. The creation of these values becomes the objectives of the organization. The managerial philosophy of determining these objectives is influenced by various environmental forces—legal-political, social-cultural, religious-ethical, and economic. If the perception of value by contributors differs and thereby causes the personal objectives of the
contributors to conflict, it is the responsibility of management to determine priorities in meeting these objectives.

Once organizational objectives are known, it is possible to determine the organizational structure with its managerial and operative functions necessary to achieve the objectives. To carry out the functions the delegation of authority, of responsibility, and of accountability is required. Authority may be obtained through the position held or through personal leadership. Proper and effective use of authority, responsibility, and accountability permits mental and physical activities to be performed which results in the creation of the goods and services to satisfy the needs and wants of contributors to the organization.

Data was gathered by personal interviews with a top level executive in twenty organizations. The sample was structured to include managers from five business fields, owners and professional managers, and managers from large and medium size organizations. The data required for this study was highly qualitative. Because some questions were theoretical and did not deal with concepts normally considered by businessmen, the interviewer occasionally had to interpret the expressed as well as the implied opinions. Sample size and subjectiveness of the data were not conducive to statistical analysis. The conclusions of this study may not be true of the universe.

Except occasionally, there was very little difference among the responses of managers of various business fields, owners and professional managers, and managers of large and medium size organizations.
On some theoretical points the level of agreement with the theory tended to be moderate. This may be partly attributed to the fact that these were points not normally considered by the interviewees. These purely theoretical points especially related to the determination of value, the role of value in determining organizational objectives, the tie-in of types of utility to line, service, and staff functions, and the possibility of superiors receiving authority from subordinates.

The highest acceptance levels concerned theory facets with which the managers frequently worked, e.g., identification of typical personal objectives of contributors, internal objective hierarchy, factors influencing managerial philosophy, and most facets of authority, responsibility, and accountability.

The over-all conclusion was that the Hay theory is generally accepted and does provide a logical, organized framework around which both theoretical and practical developments may be formulated.