

## MODULE 2

### Scientific Management and Contributions of Early Thinkers

Scientific management is a theory of management that analyzes and synthesizes work flows, with the objective of improving labor productivity. The core ideas of the theory were developed by Frederick Winslow Taylor (1856 – 1915) in the 1880s and 1890s. Taylor believed that decisions based upon tradition and rules of thumb should be replaced by precise procedures developed after careful study of an individual at work. Scientific management's application is contingent on a high level of managerial control over employee work practices.

The contributions of early thinkers towards development of management theory are detailed below:

#### F. W. Taylor

F. W. Taylor (1856 – 1915) known as father of scientific management rested his philosophy on four basic principles:

1. Develop a science for each element of a man's work, which replaces the old rule of thumb method.
2. Scientifically select and then train, teach, and develop the work man, where as in the past he chose his own work and trained himself as best as he could.
3. Heartily cooperate with the men so as to ensure all of the work being done is in accordance with the principles of science, which has been developed.
4. There is an almost equal division of the work and responsibility between management and workmen. The management takes over all work for which they are better fitted than the workmen, while in the past almost all of the work and the greater part of the responsibility were thrown upon the men.

Taylor believed that management and labour had a common interest in increasing productivity and the success of these principles required “a complete mental revolution” on the part of management and labour.

Taylor stressed the importance of “time and motion study” to increase efficiency of men and machines. He introduced a wage incentive plan known as differential rate system, which involves payment of higher wages to more efficient workers.

#### Henry L Gantt

Henry L Gantt (1861-1919) worked with Taylor on several projects and was his close associate. He improved upon Taylor's differential piece rate system and came up with a new idea. Every worker who finished a day's assigned workload would win a 50% bonus. The supervisor would also earn a bonus for each worker who reached the daily standard, plus an extra bonus if all the workers reached it. This would motivate the supervisors to train their workers to do a better job.

Gantt also devised a charting system for production scheduling, now known as Gantt chart. The Gantt chart is still in use today. It also formed the basis for two charting devices which were developed to assist in planning, managing and controlling complex organizations: the Critical path Method (CPM) and Program Evaluation and Review Technique (PERT).

## **The Gilbreths**

Frank B and Lillian M Gilbreth (1868-1924 and 1878-1972) made their contribution to the scientific management movement as a husband and wife team. They did a lot of research in order to improve work methods and thus to discover one best way of accomplishing a task. Their main field of interest was fatigue and motion studies and focused on ways of promoting the individual worker's welfare. To them, the ultimate aim of scientific management was to help workers reach their full potential as human beings.

In their conception, motion and fatigue were intertwined – every motion that was eliminated reduced fatigue. Using motion picture cameras, they tried to find the most economical ways of doing jobs. They concluded that fatigue could be considerably reduced by lightening the load, spacing the work and by introducing rest periods.

Frank Gilbreth published a series of books describing the best way of laying bricks, handling materials, training apprentices, and improving methods while lowering costs and paying higher wages.

Dr. Lillian Gilbreth is often known as the first lady of management. Lillian's thesis-turned-book, *The Psychology of Management*, is one of the earliest contributions to understanding the human side of management.

Lillian faced many incidents of discrimination during her life, including the fact that her book could only be published if her initials were used so readers would not know she was a woman. Her work illustrated concern for the worker and attempted to show how scientific management would benefit the individual worker, as well as the organization. Lillian wrote about reduction of worker fatigue, how to retool for disabled veteran workers returning to the workplace, and how to apply principles of scientific management to the home.

## **Principles of Management as Laid Down by Henri Fayol**

Henri Fayol (1841-1925) is known as the Father of principles of management. Fayol believed and prescribed fourteen principles that would aid in setting up and managing organizations. These principles are listed below.

### *1. Division of work*

Work must be divided into tasks, sub-tasks and still smaller units till specialization is achieved.

### *2. Authority and responsibility*

A relationship must be established between the responsibility and the authority a manager exercises. If a subordinate is given responsibility, he should also be given authority to go with it.

### *3. Discipline*

This principle deals with the sanction of rewards for good work or meeting standards and punishment for poor work or failure to meet standards.

### *4. Unity of Command*

Each employee must receive instructions from only one person. Fayol believed that when an employee reported to more than one manager, conflicts in instructions and confusion of authority would result.

### 5. *Unity of direction*

Tasks must be regrouped by departmentalization under one head whose major responsibility is coordinating activities.

### 6. *Subordination to general interest*

This principle is based on the idea that the whole is greater than the sum of its parts. General interest supercedes the interests of individuals.

### 7. *Remuneration*

Compensation for work done should be fair to both employees and employers.

### 8. *Centralization*

Decreasing the role of subordinates in decision-making is centralization; increasing their role is decentralization. An optimal balance between centralization and decentralization exists for each situation. This balance must be determined by taking the manager's capabilities into consideration.

### 9. *Scalar chain*

This refers to a graded chain of managers from ultimate authority at the top to lowest ranks, resulting in hierarchical levels. This principle also states that authority and responsibility should flow in a direct line vertically from top to bottom.

### 10. *Order*

This principle emphasizes the importance of arranging and organizing human and physical resources logically and neatly.

### 11. *Equity*

Managers should be both friendly and fair to their subordinates.

### 12. *Stability*

In order to provide stability of an organization, long-term commitments must be encouraged.

### 13. *Initiative*

Employees must be encouraged to think through and implement a plan of action.

### 14. *Unity of effort*

Coordination and unity are important to achieve the goals of an organization. To achieve unity and coordination communication is essential.

## **Mayo and the Hawthorne Studies**

Beginning in 1927 and running through 1932, the Hawthorne Studies took place at the Western Electric Company's Chicago Plant, who employed mostly women who assembled telephone equipment. The number one objective of the Hawthorne Studies was to examine how different work conditions affected employee productivity. When Mayo first began, he experimented with the plant's physical environment, adjusting lighting and humidity, later moving on to changing the hours worked, break times and lengths, and finally the leadership style of the manager/management .

Although the Hawthorne Studies lasted for nearly six years, Elton Mayo became famous for a small portion of the experiment, which included six female workers in the Relay Assembly Room. During this portion, Mayo's staff sat in the Assembly Room with the women and took note of everything they did, all the while talking with them, keeping them up to date on the experiment and asking them about themselves. Mayo then started with carefully controlled changes over the course of four

to twelve weeks. The changes included adjusting the lighting in the room, adjusting the time at which breaks were taken and the length of the breaks, as well as the time the workers were able to leave work. Under most of these conditions, Mayo found that work productivity increased. Only when too many breaks were introduced, did production fall. Mayo found that by adding too many breaks, he was actually halting the rhythm of the workers.

### **The Results**

Mayo discovered work was a social atmosphere and the behavior and interaction of employees, managers, and/or observers affected productivity.

Mayo also discovered that the physical conditions, such as lighting and humidity did not affect productivity as much as the recognition and attention they received.

Increased production was due to the workers being observed and not because of the condition changes.

When workers feel valuable and noticed, their work performance increased

### **Theory X**

Theory X is a traditional model of motivation and management. It takes into consideration, the pessimistic behaviour of an average human being, who is less ambitious and inherently lazy. Authoritarian management style is applied by the management, where the managers closely monitor and supervise each employee.

The premises on which theory X relies are listed below:

- By nature, an individual is indolent and will avoid work, to the extent possible.
- The average individual is unambitious, doesn't like responsibilities and prefers supervision.
- He/She is self-oriented and unconcerned about organisational objectives.
- The employee resists change and gives the highest priority to job security.
- He/She is not very clever and can easily be deceived.

On the basis of above assumptions, it is concluded that the management is held responsible for organising resources, for the firm, with the aim of economic gain. Next, the management directs the efforts of the employees and motivate and control their actions, to make them work as per the needs of the organisation. Further, they must be monitored, persuaded, rewarded and punished, or else they will remain idle.

### **Theory Y**

Theory Y is a modern approach on motivation, put forward by McGregor. It uses the participative style of management and assumes that workforce is self-directed and enjoy the work assigned to them, in the accomplishment of organisational objectives. According to the theory, employees are the most precious asset to the company. Given below are the major assumptions of this model:

- The employees usually like work and are natural like play and rest. The performance of work is discretionary and provides a sense of fulfilment, if meaningful.
- He/She can deploy self-control and self-motivation, in the pursuance of organisational objectives.
- The rewards in relation to the achievement lead to commitment towards objectives.

- An average worker, do not escape responsibility, rather he/she seeks it.
- The capabilities and calibre of the employees are underutilised, who possess unlimited potential.

Based on these assumptions, it can be deduced that management is held responsible for arranging the resources with the aim of achieving economic and social ends. Further, the employees are not indolent by nature, but they behave so, because of experience. Moreover, it is the management's duty to create such an environment for the employees to help them achieve their goals.

### **Differences between Theory X and Theory Y**

The points given below are substantial, so far as the difference between Theory X and Theory Y is concerned:

- 1) Theory X is based on the assumptions, that an average worker is motivated to satisfy their own needs and not to contribute to the fulfilment of organisational goals. Conversely, Theory Y is based on the assumption that an average human being is motivated towards growth and development and they contribute to the achievement of organisational goals.
- 2) Theory X assumes that an employee dislikes work, while theory Y presupposes that work is natural for employees.
- 3) Theory X says that employees are unambitious, whereas the employees are highly ambitious says Theory Y.
- 4) As per theory X, it has been inferred that people do not like taking responsibilities and avoids it to the extent possible. On the other hand, theory Y infers that people accept and seek responsibility.
- 5) The leadership style adopted by the management, in the case of theory X is autocratic. As against, democratic leadership style is adopted in the case of theory Y.
- 6) In theory X, it is assumed that employees require constant supervision and direction. In contrast, in theory, Y, the assumption is that employees do not need much supervision for the completion of the task and also in the accomplishment of organisational objectives.
- 7) Theory X is characterised by tight external control on the employees, whereas theory Y features leniency in control.
- 8) According to theory X, there is complete centralization of authority, in the organisation, i.e. the power lies in the hands of the top executives. Unlike, decentralisation of authority is presumed in theory Y, which involves employees participation in management and decision-making.
- 9) The element of self-motivation is absent, as per theory X, but present in theory Y.
- 10) On the basis of theory X, employees stresses on Psychological needs and Security needs. In contrast, based on theory Y, employees concentrates on Social needs, esteem needs and self-actualization needs.

### **William Ouchi's Theory Z of Motivation**

William Ouchi developed Theory Z after making a comparative study of Japanese and American management practices. Theory Z is an integrated model of motivation.

The distinguishing features of Theory Z are as follows:

### **1. Mutual Trust:**

According to Ouchi, trust, integrity and openness are essential ingredients of an effective organisation. When trust and openness exist between employees, work groups, union and management, conflict is reduced to the minimum and employees cooperate fully to achieve the organisation's objectives.

### **2. Strong Bond between Organisation and Employees:**

Several methods can be used to establish a strong bond between the enterprise and its employees. Employees may be granted lifetime employment which leads to loyalty towards the enterprise. During adverse business conditions shareholders may forgo dividends to avoid retrenchment of workers. Promotions may be slowed down.

As against vertical movement of employees greater emphasis should be placed on horizontal movement which reduces stagnation. A career planning for employees should be done so that every employee is properly placed. This would result in a more stable and conducive work environment.

### **3. Employee Involvement:**

Theory Z suggests that involvement of employees in related matters improves their commitment and performance. Involvement implies meaningful participation of employees in the decision-making process, particularly in matters directly affecting them. Such participation generates a sense of responsibility and increases enthusiasm in the implementation of decisions, Top managers serve as facilitators rather than decision-makers.

### **4. Integrated Organisation:**

Under Theory Z, focus is on sharing of information and 'resources rather than on chart, divisions or any formal structure. An integrated organisation puts emphasis on job rotation which improves understanding about interdependence of tasks. Such understanding leads to group spirit.

### **5. Coordination:**

The leader's role should be to coordinate the efforts of human beings. In order to develop common culture and class feeling in the organisation, the leader must use the processes of communication, debate and analysis.

### **6. Informal Control System:**

Organisational control system should be made informal. For this purpose emphasis should be on mutual trust and cooperation rather than on superior-subordinate relationships.

### **7. Human Resource Development:**

Managers should develop new skills among employees. Under Theory Z, potential of every person is recognized and attempts are made to develop and utilise it through job enlargement, career planning, training, etc.

### **Limitations of Theory Z:**

(i) Provision of lifetime employment to employees to develop a strong bond between organisation and employees may fail to motivate employees with higher level needs. It merely provides job security and may fail to develop loyalty among employees.

An employee may leave the organisation when better employments are offered to him by some other enterprise. Moreover, complete security of job may create lethargy among many employees. Employers also do not like to retain inefficient employees permanently.

(ii) Participation of employees in the decision-making process is very difficult. Managers may dislike participation as it may hurt their ego and freedom. Employees may be reluctant to participate due to fear of criticism and lack of motivation. Even if they sit along with management they may contribute little unless they understand the issues and take initiative. Involvement of all employees may also slow down the decision-making process.

(iii) Theory Z suggests organisation without any structure. But without structure there may be chaos in the organisation as nobody will know who is responsible to whom.

(iv) It may not be possible to develop a common culture in the organisation because people differ in their attitudes, habits, languages, religions, customs, etc.

(v) Theory Z is based on Japanese management practices. These practices have been evolved from Japan's unique culture. Therefore, the theory may not be applicable in different cultures.

## **Systems Approach**

Following are the important features of systems approach to management thought:

1. System approach considers the organisation as a dynamic and inter-related set of parts. Each part represents a department or a sub-system. Each department has its sub-system. Continuous and effective interaction of sub-systems helps to attain goals of the larger system. Thus, every sub-system is a system and has sub-systems which together make an organisation a set of mutually dependent parts and their sub-parts.

2. It considers the impact of both near and distant future on organisational activities. Organisations constantly respond to changes in the internal and external environmental conditions. They also act as market leaders in the dynamic, competitive environment.

3. System approach integrates goals of different parts of the organisation (sub-systems or departments) with the organisation as a whole. It also integrates goals of the organisation with goals of the environment or society in which it operates. Integration of goals maintains equilibrium or balance and enables organisations to grow in the dynamic environment.

4. It synthesizes knowledge of different fields of study such as biology, sociology, psychology, information systems, economics etc. As business organisation deals with different components of society, it makes best use of different fields of study to improve interaction with its counterparts.

5. System approach enables organisations to frame policies that promote business objectives and social objectives. Business operates in the social system and social values, culture, beliefs and ethics are important constituents of business operations.

## **Limitations of System Approach**

1. Critics of this theory claim this as a theoretical approach to management.

2. Relationship amongst parts of the organisation is emphasised upon but the exact nature of inter-dependence is not defined.

3. Exact relationship between internal and external environment of the organisation is also not defined.

4. System approach fails to provide uniform approach to management. Management practices change with changes in environmental variables. No standard set of principles apply to all types of organisations.

5. It fails to provide concepts that apply to all types of organisations. The small organisations are less adaptive to environmental variables than large organisations. The theory assumes that most of the organisations are big, complex and open systems. It, thus, fails to provide a unified theory.

## Contingency Theory of Management

Following are the important features of Contingency Theory:

1. Management is situational in nature. The technique of management depends on complexity of the situation.
2. It is the 'if and then' approach to management, 'If' represents the independent variable and 'then' represents the dependent management variable or the technique to be adopted in that situation. 'If' workers have strong physiological needs, 'then' financial motivators should be adopted and 'If' they have strong higher-order needs, 'then' non-financial motivators should be adopted.
3. Management principles are not universal in nature as there is no best style of management. Management is situational and managerial actions depend upon the environmental circumstances.
4. It provides insight into organisation's adaptability to both internal and external environment. It is a matter of fitting the internal environment to its external environment.
6. It is an integration of different schools of thought; classical, behavioural and systems approach. It integrates the principles of different schools of thought and applies them contingent upon the needs of the situation.
7. It is pragmatic in nature as solution to every problem is found after analysing the situation.
8. It follows the technique of multivariate analysis. It thinks of all possible variables or factors that affect the situation and adopts the best.
9. It is adaptive in nature. It does not presume a pre-designed structure of the organisation but adopts a structure that helps the organisation adapt to the environment.

### Limitations of Contingency Theory:

1. It does not follow the concept of 'universality of principles' which often apply to specific management situations.
2. It is argued that what contingency theory asserts was asserted by Fayol also. He also talked of flexibility of management principles. Therefore, the theory has added nothing new to the management thought.
3. As there is no definite solution to a problem, managers think of alternatives to arrive at the right choice. This is costly in terms of time and money. It also does not provide theoretical foundation upon which management principles will be based.
4. It is not possible for managers to determine all the factors relevant to the decision making situation. Because of constraints of time, money and ability, managers can neither collect complete information about the environment nor analyse it completely.

## McKinsey 7s Model

McKinsey 7s model is a tool that analyzes firm's organizational design by looking at 7 key internal elements: strategy, structure, systems, shared values, style, staff and skills, in order to identify if they are effectively aligned and allow organization to achieve its objectives. McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips.

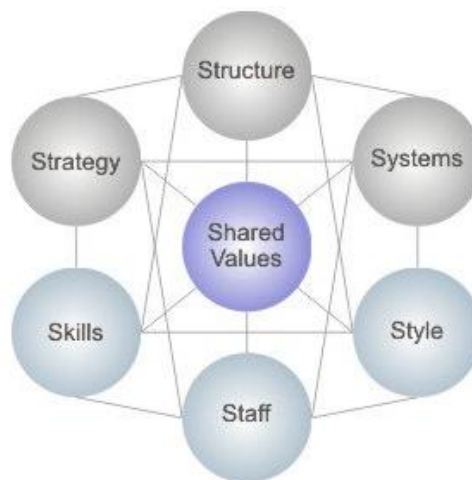
The seven interdependent factors are categorized as either "hard" or "soft" elements:



Hard Elements	Soft Elements
Strategy	Shared Values
Structure	Skills
Systems	Style
	Staff

"Hard" elements are easier to define or identify and management can directly influence them: These are strategy statements; organization charts and reporting lines; and formal processes and IT systems.

"Soft" elements, on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements if the organization is going to be successful.



The McKinsey 7S Model

The way the model is presented in the above figure depicts the interdependency of the elements and indicates how a change in one affects all the others.

- **Strategy:** the plan devised to maintain and build competitive advantage over the competition.
- **Structure:** the way the organization is structured and who reports to whom.
- **Systems:** the daily activities and procedures that staff members engage in to get the job done.
- **Shared Values:** called "superordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic.
- **Style:** the style of leadership adopted.
- **Staff:** the employees and their general capabilities.
- **Skills:** the actual skills and competencies of the employees working for the company.

Placing Shared Values in the middle of the model emphasizes that these values are central to the development of all the other critical elements. The company's structure, strategy, systems, style, staff and skills all stem from why the organization was originally created, and what it stands for. The original vision of the company was formed from the values of the creators. As the values change, so do all the other elements.

The most common uses of the framework are:

- To facilitate organizational change
- To help implement new strategy
- To identify how each area may change in a future
- To facilitate the merger of organizations

## **Corporate Social Responsibility (CSR)**

Corporate Social Responsibility (CSR) is a broad term used to describe a company's efforts to improve society in some way. These efforts can range from donating money to nonprofits to implementing environmentally-friendly policies in the workplace. CSR is important for companies, nonprofits, and employees alike.

Corporate Social Responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders. CSR is a concept with many definitions and practices.

Mintzberg (1983) stated that CSR can be practised or can appear in four forms. The purest form is when CSR is practised for its own sake. The firm expects nothing back from their CSR activities and they become socially responsible because 'that is the noble way for corporations to behave'. A second, less pure, form of CSR is when it is undertaken for 'enlightened self-interest' in which case firms undertake CSR with the belief that CSR pays. The 'pay' could be tangible or intangible but in either case, the payback is expected. This is related to Mintzberg's third form of CSR in which CSR is seen as a sound investment. According to the 'sound investment theory' the stock market reacts to firms' actions and socially responsible behaviours will be rewarded by the market. The fourth form of CSR, which is also related to enlightened self-interest, is CSR practised in order to avoid interference from external political influences. In this case, firms become socially responsible in order to prevent the authorities forcing them to be so via legislation.

There are four types of CSR according to its beneficiaries:

### **(1) Environment-Focused Corporate Social Responsibility (CSR)**

This type of CSR focuses on reducing detrimental effects of the corporation's operations on the environment. The corporation innovates in its manufacturing stage to reduce the production of environment harming by-products. It also promotes the use of non-renewable energy sources to prevent harm caused to the environment by burning of fossil fuels.

### **(2) Community-Based Corporate Social Responsibility (CSR)**

The corporation joins hands with other organizations (usually Non-Profit ones) to ensure the welfare of a local community's people. These organizations either fund or receive funding from corporations to perform tasks that can improve the living conditions of the community's people.

### **(3) Human Resource (HR)-Based Corporate Social Responsibility (CSR)**

Corporations focus on the well-being of their own staff and improve their living conditions. The companies may extend compassionate leaves like paternity leaves so that the employee can look after his newborn. They can also provide medical insurance to their employees to take care of accidents caused due to occupational hazards.

### **(4) Charity Based Corporate Social Responsibility (CSR)**

In a charity-based CSR, corporations donate to organizations or individuals (usually through a charity partner) to improve their financial condition and for their general upliftment. This is the most common form of a CSR activity. Most corporations provide direct financial support to organizations or individuals who require such assistance.

## **Business Benefits of Corporate Social Responsibility**

Better brand recognition.  
 Positive business reputation.  
 Increased sales and customer loyalty.  
 Operational costs savings.  
 Better financial performance.  
 Greater ability to attract talent and retain staff.  
 Organisational growth.  
 Easier access to capital.

## **Managerial Ethics**

Ethics are the moral codes that govern behavior of a person or group of people regarding what is right and wrong. These moral codes revolve around established values and principles and may not be the same from culture to culture. Ethics point the way to a particular course of action defining acceptable behaviors and choices. Managerial ethics are a set of standards that dictate the conduct of a manager operating within a workplace.

Managerial ethics help to guide decision making and regulate internal and external behavior. Ethical dilemmas typically arise from a conflict between an individual or group and the company, division or department as a whole. Companies establishing a set of values and norms that are acknowledged by managers and consistently referenced during the work day have created an ethical platform by which managers can operate and make decisions. Training managers on the specifics of managerial ethics by role play, case study and group discussion may set the stage for ethical behavior.

### **Types of Management Ethics**

Three types of management ethics or standards of conduct are identified by Archie B. Carroll:

- 1. Immoral management** - It implies lack of ethical practices followed by managers. Managers want to maximise profits even if it is at the cost of legal standards or concern for employees.
- 2. Moral management** - According to moral management ethics, managers aim to maximise profits within the confines of ethical values and principles. They conform to professional and legal standards of conduct.
- 3. Amoral management** - This type of management ethics lies between moral and immoral management ethics. Managers respond to personal and legal ethics only if they are required to do so; otherwise there is lack of ethical perception and awareness.

There are two types of amoral management:

- (a) **Intentional** - Managers deliberately avoid ethical practices in business decisions because they think ethics should be followed only in non-business activities.
- (b) **Unintentional** - Managers do not deliberately avoid ethical practices but unintentionally they make decisions whose moral implications are not taken into consideration.

### **Guidelines for Ethical Behaviour**

1. Obey the law - Obeying legal practices of the country is conforming to ethical values.
2. Tell the truth - Disclosing fair accounting results to concerned parties and telling the truth is ethical behaviour of managers.
3. Respect for people - Ethics requires managers to respect people who contact them.
4. The golden rule - The golden business principle is 'Treat others as you would want to be treated'.

This will always result in ethical behaviour.

5. Above all, do no harm - Even if law does not prohibit use of chemicals in producing certain products, managers should avoid them if they are environment pollutants.

6. Practice participation; not paternalism - Managers should not decide on their own what is good or bad for the stakeholders. They should assess their needs, analyse them in the light of business needs and integrate the two by allowing the stakeholders to participate in the decision-making processes.

7. Act when you have responsibility - Actions which cannot be delegated and have to be taken by managers only (given their competence and skill) must be responsibly taken by them for the benefit of the organisation and the stakeholders.

### **Approaches to Management Ethics**

1. Utilitarian approach - In this approach, managers analyse the effects of decisions on people affected by these decisions. Positive and negative results are weighed and managerial actions are justified if positive effects outweigh the negative effects. Pollution standards and analysing the impact of pollution on society is management ethics code under utilitarian approach.

2. Moral rights approach - In this approach, managers follow ethical code which takes care of fundamental and moral rights of human beings; the right to speech, right to life and safety, right to express feelings etc. In the context of business organisations, managers disclose information in the annual reports necessary for welfare of the people concerned. The nature, timing and validity of information is taken into account while reporting information in the annual reports.

3. Social justice approach - According to this approach, managers' actions are fair, impartial and equitable to all individuals and groups. Employees are not distinguished on the basis of caste, religion, race or gender though distinction on the basis of abilities or production is justified. For example, all employees, males or females with same skills should be treated at par but it is justified to treat employees who produce more differently from those who produce less.

### **Barriers to Management Ethics**

1. Chain of command - If employees know that superiors are not following ethical behaviour, they hesitate in reporting the matter up the hierarchy for the fear of being misunderstood and penalized. The chain of command is, thus, a barrier to reporting unethical activities of superiors.

2. Group membership - Informal groups lead to group code of ethics. Group members are strongly bonded by their loyalty and respect for each other and unethical behaviour of any member of the group is generally ignored by the rest.

3. Ambiguous priorities - When policies are unclear and ambiguous, employees' behaviour cannot be guided in a unified direction. It is difficult to understand what is ethical and what is unethical.