Principles of Management

Chapter 1 Introduction to Principles of Management

Reading this chapter will help you do the following:

1. Learn who managers are and about the nature of their work.
2. Know why you should care about leadership, entrepreneurship, and strategy.
3. Know the dimensions of the planning-organizing-leading-controlling (P-O- L-C) framework.
4. Learn how economic performance feeds social and environmental performance.
5. Understand what performance means at the individual and group levels.
6. Create your survivor's guide to learning and developing principles of management.

We're betting that you already have a lot of experience with organizations, teams, and leadership. You've been through schools, in clubs, participated in social or religious groups, competed in sports or games, or taken on full- or part-time jobs. Some of your experience was probably pretty positive, but you were also likely wondering sometimes, "Isn't there a better way to do this?"

After participating in this course, we hope that you find the answer to be "Yes!" While management is both art and science, with our help you can identify and develop the skills essential to better managing your and others' behaviors where organizations are concerned.

Before getting ahead of ourselves, just what is management, let alone principles of management? A manager's primary challenge is to solve problems creatively, and you should view **management** as "the art of getting things done through the efforts of other people." We draw this definition from a biography of Mary Parker Follett (1868–1933) written by P. Graham. Follett was an American social worker,

consultant, and author of books on democracy, human relations, and management. She worked as a management and political theorist, introducing such phrases as "conflict resolution," "authority and power," and "the task of leadership." The **principles of management**, then, are the means by which you actually manage, that is, get things done through others—individually, in groups, or in organizations. Formally defined, the principles of management are the activities that "plan, organize, and control the operations of the basic elements of [people], materials, machines, methods, money and markets, providing direction and coordination, and giving leadership to human efforts, so as to achieve the sought objectives of the enterprise." The fundamental notion of principles of management was developed by French management theorist Henri Fayol (1841–1925). He is credited with the original planning-organizing-leading- controlling framework (P-O-L-C), which, while undergoing very important changes in content, remains the dominant management framework in the world. See H. Fayol, *General and Industrial Management* (Paris: Institute of Electrical and Electronics Engineering, 1916). For this reason, principles of management are often discussed or learned using a framework called P-O-L-C, which stands for planning, organizing, leading, and controlling.

Managers are required in all the activities of organizations: budgeting, designing, selling, creating, financing, accounting, and artistic presentation; the larger the organization, the more managers are needed. Everyone employed in an organization is affected by management principles, processes, policies, and practices as they are either a manager or a subordinate to a manager, and usually they are both.

Managers do not spend all their time managing. When choreographers are dancing a part, they are not managing, nor are office managers managing when they personally check out a customer's credit. Some employees perform only part of the functions described as managerial—and to that extent, they are mostly managers in limited areas. For example, those who are assigned the preparation of plans in an advisory capacity to a manager, to that extent, are making

management decisions by deciding which of several alternatives to present to the management. However, they have no participation in the functions of organizing, staffing, and supervising and no control over the implementation of the plan selected from those recommended. Even independent consultants are managers, since they get most things done through others—those *others* just happen to be their clients! Of course, if advisers or consultants have their own staff of subordinates, they become a manager in the fullest sense of the definition. They must develop business plans; hire, train, organize, and motivate their staff members; establish internal policies that will facilitate the work and direct it; and represent the group and its work to those outside of the firm.

Who Are Managers?

LEARNING OBJECTIVES

1. Know what is meant by "manager".

2. Be able to describe the types of managers.

3. Understand the nature of managerial work.

Managers

We tend to think about managers based on their position in an organization. This tells us a bit about their role and the nature of their responsibilities. The following figure summarizes the historic and contemporary views of organizations with respect to managerial roles.[1] In contrast to the traditional, hierarchical relationship among layers of management and managers and employees, in the contemporary view, top managers support and serve other managers and employees (through a process called empowerment), just as the organization ultimately exists to serve its customers and clients. **Empowerment** is the process of enabling or authorizing an individual to think, behave, take action, and control work and decision making in autonomous ways.

In both the traditional and contemporary views of management, however, there remains the need for different types of managers. *Top managers* are responsible

for developing the organization's strategy and being a steward for its vision and mission. A second set of managers includes functional, team, and general managers.

Functional managers are responsible for the efficiency and effectiveness of an area, such as accounting or marketing.

Supervisory or team managers are responsible for coordinating a subgroup of a particular function or a team composed of members from different parts of the organization. Sometimes you will hear distinctions made between line and staff managers.

A line manager leads a function that contributes directly to the products or services the organization creates. For example, a line manager (often called a product, or service manager) at Procter & Gamble (P&G) is responsible for the production, marketing, and profitability of the Tide detergent product line. A staff manager, in contrast, leads a function that creates indirect inputs. For example, finance and accounting are critical organizational functions but do not typically provide an input into the final product or service a customer buys, such as a box of Tide detergent. Instead, they serve a supporting role. A project manager has the responsibility for the planning, execution, and closing of any project. Project managers are often found in construction, architecture, consulting, computer networking, telecommunications, or software development.

A *general manager* is someone who is responsible for managing a clearly identifiable revenue-producing unit, such as a store, business unit, or product line. General managers typically must make decisions across different functions and have rewards tied to the performance of the entire unit (i.e., store, business unit, product line, etc.). General managers take direction from their top executives. They must first understand the executives' overall plan for the company. Then they set specific goals for their own departments to fit in with the plan. The general manager of production, for example, might have to increase certain product lines

and phase out others. General managers must describe their goals clearly to their support staff. The supervisory managers see that the goals are met.

Figure 1 The Changing Roles of Management and Managers

The Nature of Managerial Work

Managers are responsible for the processes of getting activities completed efficiently with and through other people and setting and achieving the firm's goals through the execution of four basic management functions: planning, organizing, leading, and controlling. Both sets of processes utilize human, financial, and material resources.

Of course, some managers are better than others at accomplishing this! There have been a number of studies on what managers actually do, the most famous of those conducted by Professor Henry Mintzberg in the early 1970s.[2] One explanation for Mintzberg's enduring influence is perhaps that the nature of managerial work has changed very little since that time, aside from the shift to an empowered relationship between top managers and other managers and employees, and obvious changes in technology, and the exponential increase in information overload.

After following managers around for several weeks, Mintzberg concluded that, to meet the many demands of performing their functions, managers assume multiple roles. A role is an organized set of behaviors, and Mintzberg identified 10 roles common to the work of all managers. As summarized in the following figure, the 10 roles are divided into three groups: interpersonal, informational, and decisional. The informational roles link all managerial work together. The interpersonal roles

ensure that information is provided. The decisional roles make significant use of the information. The performance of managerial roles and the requirements of these roles can be played at different times by the same manager and to different degrees, depending on the level and function of management. The 10 roles are described individually, but they form an integrated whole.

The three interpersonal roles are primarily concerned with interpersonal relationships. In the figurehead role, the manager represents the organization in all matters of formality. The top-level manager represents the company legally and socially to those outside of the organization. The supervisor represents the work group to higher management and higher management to the work group. In the liaison role, the manager interacts with peers and people outside the organization. The top-level
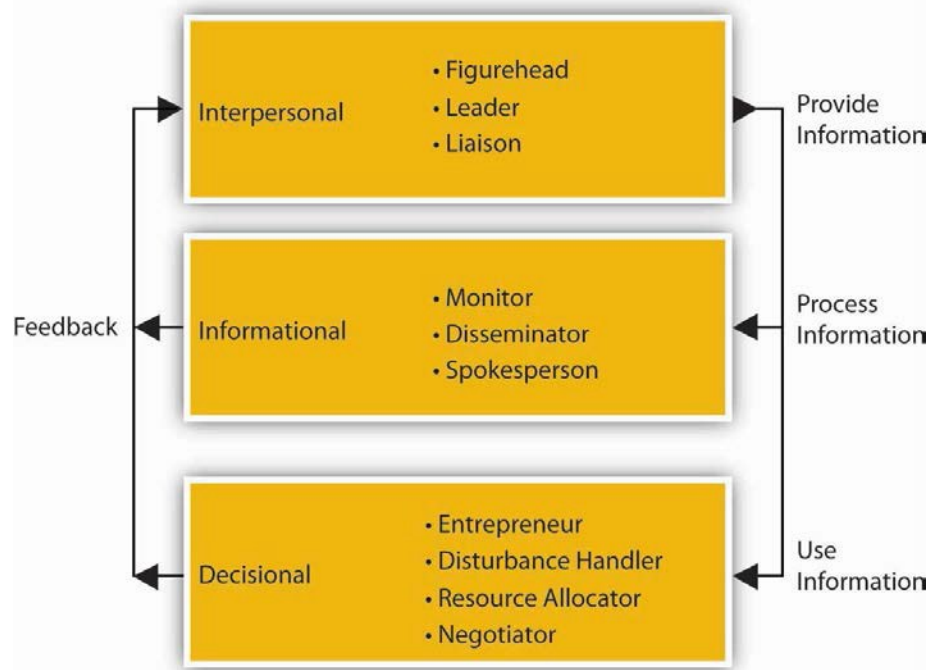
Figure 2 Ten Managerial Roles

manager uses the liaison role to gain favors and information, while the supervisor uses it to maintain the routine flow of work. The leader role defines the relationships between the manager and employees.

The direct relationships with people in the interpersonal roles place the manager in a unique position to get information. Thus, the three informational roles are primarily concerned with the information aspects of managerial work. In the monitor role, the manager receives and collects information. In the role of

disseminator, the manager transmits special information into the organization. The top-level manager receives and transmits more information from people outside the organization than the supervisor. In the role of spokesperson, the manager disseminates the organization's information into its environment. Thus, the top-level manager is seen as an industry expert, while the supervisor is seen as a unit or departmental expert.

The unique access to information places the manager at the center of organizational decision making. There are four decisional roles managers play. In the entrepreneur role, the manager initiates change. In the disturbance handler role, the manager deals with threats to the organization. In the resource allocator role, the manager chooses where the organization will expend its efforts. In the negotiator role, the manager negotiates on behalf of the organization. The top-level manager makes the decisions about the organization as a whole, while the supervisor makes decisions about his or her particular work unit.

The supervisor performs these managerial roles but with different emphasis than higher managers. Supervisory management is more focused and short-term in outlook. Thus, the figurehead role becomes less significant and the disturbance handler and negotiator roles increase in importance for the supervisor. Since leadership permeates all activities, the leader role is among the most important of all roles at all levels of management.

So what do Mintzberg's conclusions about the nature of managerial work mean for you? On the one hand, managerial work is the lifeblood of most organizations because it serves to choreograph and motivate individuals to do amazing things. Managerial work is exciting, and it is hard to imagine that there will ever be a shortage of demand for capable, energetic managers. On the other hand, managerial work is necessarily fast-paced and fragmented, where managers at all levels express the opinion that they must process much more information and make more decisions than they could have ever possibly imagined. So, just as the most successful organizations seem to have well-formed and well-executed

strategies, there is also a strong need for managers to have good strategies about the way they will approach their work. This is exactly what you will learn through principles of management.

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KEY TAKEAWAYS

- Managers are responsible for getting work done through others.
- We typically describe the key managerial functions as planning, organizing, leading, and controlling.
- The definitions for each of these have evolved over time, just as the nature of managing in general has evolved over time.
- This evolution is best seen in the gradual transition from the traditional hierarchical relationship between managers and employees, to a climate characterized better as an upside-down pyramid, where top executives support middle managers and they, in turn, support the employees who innovate and fulfill the needs of customers and clients.
- Through all four managerial functions, the work of managers ranges across 10 roles, from figurehead to negotiator.
- While actual managerial work can seem challenging, the skills you gain through principles of management—consisting of the functions of planning, organizing, leading, and controlling—will help you to meet these challenges.

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Planning, Organizing, Leading, and Controlling

LEARNING OBJECTIVES

1. Know the dimensions of the planning-organizing-leading-controlling (P-O- L-C) framework.

2. Know the general inputs into each P-O-L-C dimension.

A manager's primary challenge is to solve problems creatively. While drawing from a variety of academic disciplines, and to help managers respond to the challenge of creative problem solving, principles of management have long been categorized into the four major functions of planning, organizing, leading, and controlling (the P-O- L-C framework). The four functions, summarized in the P-O-L-C figure, are actually highly integrated when carried out in the day-to- day realities of running an organization. Therefore, you should not get caught up in trying to analyze and understand a complete, clear rationale for categorizing skills and practices that compose the whole of the P-O-L-C framework.

It is important to note that this framework is not without criticism. Specifically, these criticisms stem from the observation that the P-O- L-C functions might be ideal but that they do not accurately depict the day-to-day actions of actual managers.[3] The typical day in the life of a manager at any level can be fragmented and hectic, with the constant threat of having priorities dictated by the law of the trivial many and important few (i.e., the 80/20 rule).

However, the general conclusion seems to be that the P-O-L-C functions of management still provide a very useful way of classifying the activities managers engage in as they attempt to achieve organizational goals.[4]

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 3 The P-O-L-C Framework

Planning

Planning is the function of management that involves setting objectives and determining a course of action for achieving those objectives. Planning requires that managers be aware of environmental conditions facing their organization and forecast future conditions. It also requires that managers be good decision makers.

Planning is a process consisting of several steps. The process begins with **environmental scanning** which simply means that planners must be aware of the critical contingencies facing their organization in terms of economic conditions, their competitors, and their customers. Planners must then attempt to forecast future conditions. These forecasts form the basis for planning.

Planners must establish objectives, which are statements of what needs to be achieved and when. Planners must then identify alternative courses of action for achieving objectives. After evaluating the various alternatives, planners must make decisions about the best courses of action for achieving objectives. They must then formulate necessary steps and ensure effective implementation of plans. Finally, planners must constantly evaluate the success of their plans and take corrective action when necessary.

There are many different types of plans and planning.

- Strategic planning involves analyzing competitive opportunities and threats, as well as the strengths and weaknesses of the organization, and then determining how to position the organization to compete effectively in their environment. Strategic planning has a long time frame, often three years or more. Strategic planning generally includes the entire organization and includes formulation of objectives. Strategic planning is often based on the organization's mission, which is its fundamental reason for existence. An organization's top management most often conducts strategic planning.

- Tactical planning is intermediate-range (one to three years) planning that is

designed to develop relatively concrete and specific means to implement the strategic plan. Middle-level managers often engage in tactical planning.

- Operational planning generally assumes the existence of organization-wide or subunit goals and objectives and specifies ways to achieve them. Operational planning is short-range (less than a year) planning that is designed to develop specific action steps that support the strategic and tactical plans.

Organizing

Organizing is the function of management that involves developing an organizational structure and allocating human resources to ensure the accomplishment of objectives. The structure of the organization is the framework within which effort is coordinated. The structure is usually represented by an organization chart, which provides a graphic representation of the chain of command within an organization. Decisions made about the structure of an organization are generally referred to as **organizational design** decisions.

Organizing also involves the design of individual jobs within the organization. Decisions must be made about the duties and responsibilities of individual jobs, as well as the manner in which the duties should be carried out. Decisions made about the nature of jobs within the organization are generally called "job design" decisions.

Organizing at the level of the organization involves deciding how best to departmentalize, or cluster, jobs into departments to coordinate effort effectively. There are many different ways to departmentalize, including organizing by function, product, geography, or customer. Many larger organizations use multiple methods of departmentalization.

Organizing at the level of a particular job involves how best to design individual jobs to most effectively use human resources. Traditionally, **job design** was based on principles of division of labor and specialization, which assumed that the more

narrow the job content, the more proficient the individual performing the job could become. However, experience has shown that it is possible for jobs to become too narrow and specialized. For example, how would you like to screw lids on jars one day after another, as you might have done many decades ago if you worked in company that made and sold jellies and jams? When this happens, negative outcomes result, including decreased job satisfaction and organizational commitment, increased absenteeism, and turnover.

Recently, many organizations have attempted to strike a balance between the need for worker specialization and the need for workers to have jobs that entail variety and autonomy. Many jobs are now designed based on such principles as empowerment, **job enrichment** and **teamwork.** For example, HUI Manufacturing, a custom sheet metal fabricator, has done away with traditional "departments" to focus on listening and responding to customer needs. From company-wide meetings to team huddles, HUI employees know and understand their customers and how HUI might service them best. http://www.huimfg.com/abouthui-yourteams.aspx (accessed October 15, 2008).

Leading

Leading involves the social and informal sources of influence that you use to inspire action taken by others. If managers are effective leaders, their subordinates will be enthusiastic about exerting effort to attain organizational objectives.

The behavioral sciences have made many contributions to understanding this function of management. Personality research and studies of job attitudes provide important information as to how managers can most effectively lead subordinates. For example, this research tells us that to become effective at leading, managers must first understand their subordinates' personalities, values, attitudes, and emotions.

Studies of motivation and motivation theory provide important information about the ways in which workers can be energized to put forth productive effort. Studies of communication provide direction as to how managers can effectively and

persuasively communicate.

Studies of leadership and leadership style provide information regarding questions, such as, "What makes a manager a good leader?" and "In what situations are certain leadership styles most appropriate and effective?"

Controlling

Controlling involves ensuring that performance does not deviate from standards. Controlling consists of three steps, which include (1) establishing performance standards, (2) comparing actual performance against standards, and (3) taking corrective action when necessary. Performance standards are often stated in monetary terms such as revenue, costs, or profits but may also be stated in other terms, such as units produced, number of defective products, or levels of quality or customer service.

The measurement of performance can be done in several ways, depending on the performance standards, including financial statements, sales reports, production results, customer satisfaction, and formal performance appraisals. Managers at all levels engage in the managerial function of controlling to some degree.

The managerial function of controlling should not be confused with control in the behavioral or manipulative sense. This function does not imply that managers should attempt to control or to manipulate the personalities, values, attitudes, or emotions of their subordinates. Instead, this function of management concerns the manager's role in taking necessary actions to ensure that the work-related activities of subordinates are consistent with and contributing toward the accomplishment of organizational and departmental objectives.

Effective controlling requires the existence of plans, since planning provides the necessary performance standards or objectives. Controlling also requires a clear understanding of where responsibility for deviations from standards lies. Two traditional control techniques are budget and performance audits. An audit involves an examination and verification of records and supporting documents. A

budget audit provides information about where the organization is with respect to what was planned or budgeted for, whereas a performance audit might try to determine whether the figures reported are a reflection of actual performance. Although controlling is often thought of in terms of financial criteria, managers must also control production and operations processes, procedures for delivery of services, compliance with company policies, and many other activities within the organization.

The management functions of planning, organizing, leading, and controlling are widely considered to be the best means of describing the manager's job, as well as the best way to classify accumulated knowledge about the study of management. Although there have been tremendous changes in the environment faced by managers and the tools used by managers to perform their roles, managers still perform these essential functions.

KEY TAKEAWAYS

- The principles of management can be distilled down to four critical functions. These functions are planning, organizing, leading, and controlling.
- This P-O-L-C framework provides useful guidance into what the ideal job of a manager should look like.

Performance of Individuals and Groups

LEARNING OBJECTIVES

1. Understand the key dimensions of individual-level performance.
2. Understand the key dimensions of group-level performance.
3. Know why individual- and group-level performance goals need to be compatible.

Principles of management are concerned with organization-level outcomes such as economic, social, or environmental performance, innovation, or ability to change and adapt. However, for something to happen at the level of an organization, something must typically also be happening within the organization at the individual or team level. Obviously, if you are an entrepreneur and the only person employed by your company, the organization will accomplish what you do and reap the benefits of what you create. Normally though, organizations have more than one person, which is why we introduce to you concepts of individual and group performance.

Individual-Level Performance

Individual-level performance draws upon those things you have to do in your job, or **in-role performance**, and those things that add value but which aren't part of your formal job description. These "extras" are called extra-role performance or **organizational citizenship behaviors (OCBs).** At this point, it is probably simplest to consider an in-role performance as having productivity and quality dimensions associated with certain standards that you must meet to do your job. In contrast, OCBs can be understood as individual behaviors that are beneficial to the organization and are discretionary, not directly or explicitly recognized by the formal reward system.[5]

In comparison to in-role performance, the spectrum of what constitutes extra-role performance, or OCBs, seems be great and growing. In a recent review, for example, management researchers identified 30 potentially different forms of OCB, which they conveniently collapsed into seven common themes: (1) Helping Behavior, (2) Sportsmanship, (3) Organizational Loyalty, (4) Organizational Compliance, (5) Individual Initiative, (6) Civic Virtue, and (7) Self-Development.[6]

Table 1 A current survey of organization citizenship behaviors

Theme	Description
Helping Behavior (Taking on the forms of altruism, interpersonal helping, courtesy, peacemaking, and cheerleading.)	**Altruism** • Voluntary actions that help another person with a work problem. • Instructing a new hire on how to use equipment, helping a coworker catch up with a backlog of work, fetching materials that a colleague needs and cannot procure on their own. **Interpersonal helping** • Focuses on helping coworkers in their jobs when such help was needed. **Courtesy** • Subsumes all of those foresightful gestures that help someone else prevent a problem. • Touching base with people before committing to actions that will affect them, providing advance notice to someone who needs to know to schedule work. **Peacemaking** • Actions that help to prevent, resolve, or mitigate unconstructive interpersonal conflict. **Cheerleading** • The words and gestures of encouragement and reinforcement of coworkers. • Accomplishments and professional

Theme	Description
	development.
Sportsmanship	A citizenlike posture of tolerating the inevitable inconveniences and impositions of work without whining and grievances.
Organizational Loyalty	Identification with and allegiance to organizational leaders and the organization as a whole, transcending the parochial interests of individuals, work groups, and departments. Representative behaviors include defending the organization against threats, contributing to its good reputation, and cooperating with others to serve the interests of the whole.
Organizational Compliance (or Obedience)	An orientation toward organizational structure, job descriptions, and personnel policies that recognizes and accepts the necessity and desirability of a rational structure of rules and regulations. Obedience may be demonstrated by a respect for rules and instructions, punctuality in attendance and task completion, and stewardship of organizational resources.
Individual Initiative (or Conscientiousness)	A pattern of going well beyond minimally required levels of attendance, punctuality, housekeeping, conserving resources, and related matters of internal maintenance.

Theme	Description
Civic Virtue	Responsible, constructive involvement in the political process of the organization, including not just expressing opinions but reading one's mail, attending meetings, and keeping abreast of larger issues involving the organization.
Self-Development	Includes all the steps that workers take to voluntarily improve their knowledge, skills, and abilities so as to be better able to contribute to their organizations. Seeking out and taking advantage of advanced training courses, keeping abreast of the latest developments in one's field and area, or even learning a new set of skills so as to expand the range of one's contributions to an organization.

As you can imagine, principles of management are likely to be very concerned with individuals' in-role performance. At the same time, just a quick glance through Table 1 "A current survey of organization citizenship behaviors" should suggest that those principles should help you better manage OCBs as well.

Group-Level Performance

A **group** is a collection of individuals. Group-level performance focuses on both the outcomes and process of collections of individuals, or groups. Individuals can work on their own agendas in the context of a group. Groups might consist of project-related groups, such as a product group or an entire store or branch of a company. The performance of a group consists of the inputs of the group minus any process loss that result in the final output, such as the quality of a product and the ramp-up time to production or the sales for a given month. **Process loss** is any aspect of

group interaction that inhibits good problem solving.

Why do we say *group* instead of *team*? A collection of people is not a team, though they may learn to function in that way. A **team** is a cohesive coalition of people working together to achieve the team agenda (i.e., teamwork). Being on a team is not equal to total subordination of personal agendas, but it does require a commitment to the vision and involves each individual directly in accomplishing the team's objective. Teams differ from other types of groups in that members are focused on a joint goal or product, such as a presentation, completing in-class exercises, discussing a topic, writing a report, or creating a new design or prototype. Moreover, teams also tend to be defined by their relatively smaller size. For example, according to one definition, "A team is a *small* number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they are mutually accountable."[7]

The purpose of assembling a team is to accomplish bigger goals that would not be possible for the individual working alone or the simple sum of many individuals' independent work. Teamwork is also needed in cases where multiple skills are needed or where buy-in is required from certain key stakeholders. Teams can, but do not always, provide improved performance. Working together to further the team agenda seems to increase mutual cooperation between what are often competing factions. The aim and purpose of a team is to perform, to get results, and to achieve victory in the workplace and marketplace. The very best managers are those who can gather together a group of individuals and mold them into an effective team.

Compatibility of Individual and Group Performance

As a manager, you will need to understand the compatibility of individual and group performance, typically with respect to goals and incentives. What does this mean? Looking at goals first, there should be compatibility between individual and group goals. For example, do the individuals' goals contribute to the achievement of the group goal or are they contradictory? Incentives also need to be aligned

between individuals and groups. A disconnect between these is most likely when individuals are too far insulated from the external environment or rewarded for action that is not consistent with the goal. For example, individuals may be seeking to perfect a certain technology and, in doing so, delay its release to customers, when customers would have been satisfied with the current solution and put a great priority on its timely delivery. Finally, firms need to be careful to match their goals with their reward structures. For example, if the organization's goal is to increase group performance but the firm's performance appraisal process rewards individual employee productivity, then the firm is unlikely to create a strong team culture.

KEY TAKEAWAYS

- This section helped you understand individual and group performance and suggested how they might roll up into organizational performance.
- Principles of management incorporate two key facets of individual performance: in-role and OCB (or extra- role) performance.
- Group performance, in turn, was shown to be a function of how well individuals achieved a combination of individual and group goals.
- A team is a type of group that is relatively small, and members are willing and able to subordinate individual goals and objectives to those of the larger group.

Chapter 2 History, Globalization, and Values-Based Leadership

Reading this chapter will help you do the following:

1. Learn about the history of principles of management.

2. Know the context for contemporary principles of management.

3. Understand key global trends.

4. See how globalization is affecting management principles and practices.

5. Appreciate the importance of value-based leadership (ethics) in management.

The planning-organizing-leading-controlling (P-O-L-C) framework is summarized in the following figure. In this chapter, you'll learn that some principles of management are enduring, but you'll also see that managers need to be continually adapting to changing times. Each facet of the framework—from planning, to organizing, to leading, to controlling—has to be adapted to take advantage of, and to manage in, our changing world. Global trends affect both the style and the substance of management. As the world becomes more global, managers find themselves leading workforces that may be distributed across the country—and the world. Workers are more educated, but more is expected of them.

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 4 The P-O-L-C Framework

The realm of managers is expanding. As a leader, you'll be a role model in the organization, setting the tone not just for *what* gets done but *how* it gets done. Increasingly, good business practice extends to stewardship, not just of the organization but of the environment and community at large. Ethics and values-based leadership aren't just good ideas—they're vital to attracting talent and retaining loyal customers and business partners.

Ancient History: Management Through the 1990s

LEARNING OBJECTIVES

1. Early motivation for development of principles.

2. What problems did these principles solve?

3. What were the limitations of these early views?

Early Management Principles

Early management principles were born of necessity. The most influential of these early principles were set forth by **Henri Fayol** a French mining engineer. In 1888, Fayol became director of a mining company. The company was in difficulty, but Fayol was able to turn it around and make the company profitable again. When he retired, Fayol wrote down what he'd done to save the company. He helped develop an "administrative science" and developed principles that he thought all organizations should follow if they were to run properly.

Fayol's 14 Principles of Management

1. Specialization/Division of Labor – By specializing in a limited set of activities, workers become more efficient and increase their output.

2. Authority/Responsibility – Managers must have the authority to issue commands, but with that authority comes the responsibility to ensure that the work gets done.

3. Discipline – Workers must obey orders if the business is to run smoothly.

But good discipline is the result of effective leadership: workers must understand the rules and management should use penalties judiciously if workers violate the rules.

4. Unity of Command – An employee should receive orders only from one boss to avoid conflicting instructions.

5. Unity of Direction – Each unit or group has only one boss and follows one plan so that work is coordinated.

6. Subordination of Individual Interest – The interests of one person should never take precedence over what is best for the company as a whole.

7. Remuneration – Workers must be fairly paid for their services.

8. Centralization – Centralization refers to decision making: specifically, whether decisions are centralized (made by management) or decentralized (made by employees). Fayol believed that whether a company should centralize or decentralize its decision making depended on the company's situation and the quality of its workers.

9. Line of Authority – The line of authority moves from top management down to the lowest ranks. This hierarchy is necessary for unity of command, but communication can also occur laterally if the bosses are kept aware of it. The line should not be overextended or have too many levels.

10. Order – Orderliness refers both to the environment and materials as well as to the policies and rules. People and materials should be in the right place at the right time.

11. Equity – Fairness (equity), dignity, and respect should pervade the organization. Bosses must treat employees well, with a "combination of kindliness and justice."

12. Stability of Tenure – Organizations do best when tenure is high (i.e., turnover is low). People need time to learn their jobs, and stability promotes loyalty. High employee turnover is inefficient.

13. Initiative – Allowing everyone in the organization the right to create plans and carry them out will make them more enthusiastic and will encourage them to work harder.

14. Esprit de Corps – Harmony and team spirit across the organization builds morale and unity.

Time and Motion

Frederick Winslow Taylor, a contemporary of Fayol's, formalized the principles of scientific management in his 1911 book, *The Principles of Scientific Management*. Taylor described how productivity could be greatly improved by applying the scientific method to management; for this reason, the scientific approach is sometimes referred to as Taylorism.

Taylor is most famous for his "time studies," in which he used a stopwatch to time how long it took a worker to perform a task, such as shoveling coal or moving heavy loads. Then he experimented with different ways to do the tasks to save time. Sometimes the improvement came from better tools. For example, Taylor devised the "science of shoveling," in which he conducted time studies to determine how much weight a worker could lift with a shovel without tiring. He determined that 21 pounds was the optimal weight. But since the employer expected each worker to bring his own shovel, and there were different materials to be shoveled on the job, it was hard to ensure that 21-pound optimum. So, Taylor provided workers with the optimal shovel for each density of materials, like coal, dirt, snow, and so on. With these optimal shovels, workers became three or four times more productive, and they were rewarded with pay increases.

Frank Gilbreth and Lillian Moller Gilbreth, his wife (who outlived Frank by 48 years!), were associates of Taylor and were likewise interested in standardization of work to improve productivity. Retrieved January 28, 2009, from http://en.wikipedia.org/wiki/Cheaper_by_the_Dozen. *Cheaper by the Dozen* was made into a 1950 motion picture starring Clifton Webb and Myrna Loy as Frank and Lillian Gilbreth. They went one better on Taylor's time studies, devising "motion studies" by photographing the individual movements of each worker (they attached lights to workers' hands and photographed their motions at slow speeds). The Gilbreths then carefully analyzed the motions and removed unnecessary ones. These motion studies were preceded by timing each task, so the studies were

called "time and motion studies."

Applying time and motion studies to bricklaying, for example, the Gilbreths devised a way for workers to lay bricks that eliminated wasted motion and raised their productivity from 1,000 bricks per day to 2,700 bricks per day. Frank Gilbreth applied the same technique to personal tasks, like coming up with "the best way to get dressed in the morning." He suggested the best way to button the waistcoat, for example, was from bottom up rather than top down. Why? Because then a man could straighten his tie in the same motion, rather than having to raise his hands back up from the bottom of the waistcoat.

Limitations of the Early Views

Fayol, Taylor, and the Gilbreths all addressed productivity improvement and how to run an organization smoothly. But those views presumed that managers were overseeing manual labor tasks. As work began to require less manual labor and more knowledge work, the principles they had developed became less effective. Worse, the principles of Taylorism tended to dehumanize workers. The writer **Upton Sinclair** who raised awareness of deplorable working conditions in the meatpacking industry in his 1906 book, *The Jungle,* was one of Taylor's vocal critics. Sinclair pointed out the relatively small increase in pay (61%) that workers received compared with their increased productivity (362%). Frederick Taylor answered Sinclair's criticism, saying that workers should not get the full benefit because it was management that devised and taught the workers to produce more. But Taylor's own words compare workers to beasts of burden: The worker is "not an extraordinary man difficult to find; he is merely a man more or less the type of an ox, heavy both mentally and physically[8]."When work was manual, it made sense for a manager to observe workers doing a task and to devise the most efficient motions and tools to do that task. As we moved from a manufacturing society to a service-based one, that kind of analysis had less relevance. Managers can't see inside the head of a software engineer to devise the fastest way to write code. Effective software programming depends on knowledge work, not typing speed.

Likewise, a services-based economy requires interactions between employees and customers. Employees have to be able to improvise, and they have to be motivated and happy if they are to serve the customer in a friendly way. Therefore, new management theories were developed to address the new world of management and overcome the shortcomings of the early views.

Finally, early views of management were heavily oriented toward efficiency, at the expense of attention to the manager-as-leader. That is, a manager basically directs resources to complete predetermined goals or projects. For example, a manager may engage in hiring, training, and scheduling employees to accomplish work in the most efficient and cost-effective manner possible. A manager is considered a failure if he or she is not able to complete the project or goals with efficiency or when the cost becomes too high. However, a leader within a company develops individuals to complete predetermined goals and projects. A leader develops relationships with his or her employees by building communication, by evoking images of success, and by eliciting loyalty. Thus, later views of management evoke notions of leaders and leadership in discussing the challenges and opportunities for modern managers.

Management Ideas of the 1990s

Peter Drucker was the first scholar to write about how to manage knowledge workers, with his earliest work appearing in 1969. Drucker addressed topics like management of professionals, the discipline of entrepreneurship and innovation, and how people make decisions. In 1982, **Tom Peters and Robert Waterman** wrote *In Search of Excellence*, which became an international best seller and ushered a business revolution by changing the way managers viewed their relationships with employees and customers. On the basis of the authors' research focusing on 43 of America's most successful companies in six major industries, the book introduced nine principles of management that are embodied in excellent organizations:

1. Managing Ambiguity and Paradox – The ability of managers to hold two

opposing ideas in mind at the same time and still be able to function effectively.

2. A Bias for Action – A culture of impatience with lethargy and inertia that otherwise leaves organizations unresponsive.

3. Close to the Customer – Staying close to the customer to understand and anticipate customer needs and wants.

4. Autonomy and Entrepreneurship – Actions that foster innovation and nurture customer and product champions.

5. Productivity through People – Treating rank-and-file employees as a source of quality.

6. Hands-On, Value-Driven – A management philosophy that guides everyday practice and shows management's commitment.

7. Stick to the Knitting – Stay with what you do well and the businesses you know best.

8. Simple Form, Lean Staff – The best companies have very minimal, lean headquarters staff.

9. Simultaneous – Loose-Tight Properties[9]

Following up, Peters wrote a *Passion for Excellence*, which placed further emphasis on leadership, innovation, and valuing people. His book *Thriving on Chaos*, published the day of the biggest stock market crash of the time ("Black Monday," October 19, 1987), addressed the uncertainty of the times; and *Liberation Management*, published in 1992, laid out 45 prescriptions for how to lead companies in a rapidly changing world. The book called for empowering people by involving everyone in decision making and eliminating bureaucratic rules and humiliating conditions. Peters urged organizational leaders (i.e., managers) to celebrate and recognize employees for their contributions. His advice to leaders was to "master paradox" (i.e., develop a level of comfort with complexity and ambiguity) and establish direction for the company by developing an inspiring vision and leading by example.

Beginning in the 1970s, **Warren Bennis** pioneered a new theory of leadership that

addressed the need for leaders to have vision and to communicate that vision. More than just a manager, an effective leader was defined as someone with the ability to influence and motivate others not only to perform work tasks but also to support the organization's values and meet the organization's goals. Different views of leadership through the ages are shown next.

Views of Leadership Through the Ages

"A leader is a dealer in hope."—Napoleon

"I suppose that leadership at one time meant muscle; but today it means getting along with people."—Indira Gandhi

"What leaders really do: set direction, align people, and motivate people."—John Kotter

KEY TAKEAWAYS

- Early management theorists developed principles for managing organizations that suited the times.

- A century ago, few workers were highly educated; most work was manual, tasks were repetitive, and rates of change were slow. Hierarchy brought unity and control, and principles of management in which managers defined tasks and coordinated workers to move in a unified direction made sense.

- As the economy moved from manufacturing to services, the need for engaging workers' minds and hearts became more important.

- Drucker, Peters, and Waterman presented ideas on how managers could achieve excellence in a continually changing business environment, while Bennis encouraged managers to become inspiring leaders who empowered people.

Contemporary Principles of Management

LEARNING OBJECTIVES

1. Recognize organizations as social movements.
2. Understand the benefits of social networking.
3. Recognize learning organizations.
4. Understand virtual organizations.

Corporations as Social Movements

Traditionally, we've thought of corporations as organizations that had clear boundaries, formal procedures, and well-defined authority structures. In contrast, social movements are seen as more spontaneous and fluid. The term **social movement** refers to a type of group action that is focused on specific political or social issues; examples include the civil rights movement, the feminist movement, and the gay rights movement. Leaders of social movements depend on charisma rather than authority to motivate participants to action. Contemporary management theory, however, is showing that the lines between the two are blurring: corporations are becoming more like social movements, and social movements are taking on more permanence. Just as companies are outsourcing specific jobs, so social movements can contract out tasks like lobbying and fundraising.

Corporations can implement initiatives that mimic a social movement. Consider how the CEO of one bank described a program he introduced: "The hierarchical management structure will give way to some collective activities that will improve our effectiveness in the marketplace. Decisions won't flow from a management level to people on the line who are expected to implement those decisions.…We're telling everyone, choose a process, figure out what and where the problems are,

work together to come up with solutions, and then put your solutions to work.[10]"
Thus, more and more leading businesses are harnessing the mechanics of social
movements to improve how they will manage their businesses in the future.

Social Networking

Social networking refers to systems that allow members of a specific site to learn
about other members' skills, talents, knowledge, or preferences. Companies use
these systems internally to help identify experts.

In the world, at large, social networks are groups of individuals who share a
common interest or passion. Poker players, dog lovers, and high school alumni are
a few examples of social networks in action. In the corporate world, a social
network is made up of individuals who share an employer and, potentially, other
interests as well. But in the pre-Internet age, managers lacked the tools to
recognize or tap the business value of in-house social networks. The company
softball team was a social network, sure. But what did that have to do with the
bottom line?

Today, social networks are starting points for corporate innovation: potentially
limitless arrangements of individuals inspired by opportunities, affinities, or tasks.
People feel better and work better when they belong to a group of other people
like themselves[11]. This new attitude toward social networks in the workplace has
been fueled by the growth of social networking sites like Facebook.

Facebook was started by then-college student Mark Zuckerberg in 2004 as a way
of connecting a social network—specifically, university students. Since then,
Facebook has changed the way organizations connect as well. Some companies
maintain a physical presence on Facebook that allows consumers to chime in
about their passions (or lack of them) for corporate offerings, news, and products.
Starbucks has adopted this model, asking consumers to help them revive their
product lines and image.

As Zuckerberg told the *Wall Street Journal*, "We just want to share information

more efficiently[12]." And, in the information age, that's what social networks do best. Companies are applying the online social networking model of open and closed groups to their corporate intranets, creating secure sites for employees in different locations to collaborate on projects based on common interests, management directives, and incentives. For example, IBM's pilot virtual world will let Big Blue employees use chat, instant messaging, and voice communication programs while also connecting to user-generated content in the public spaces of Second Life, another large social networking site. IBM also opened a virtual sales center in Second Life and, separately from the Second Life partnership, is building an internal virtual world where work groups can have meetings.

The use of online social networking principles can open the door to outside collaborations. For example, Netflix offered a million-dollar reward to anyone in the company's social network of interested inventors who could improve the algorithm that matches movie lovers to new titles they might enjoy. Companies like Procter & Gamble and InnoCentive are tapping social networks of scientists to improve their products.

Social networks fueled by passion can help managers retain, motivate, and educate staff. They might even help Facebook's Mark Zuckerberg with an in-house dilemma as his company grows.

According to the *Wall Street Journal*, the world's most dynamic social networking site has "little management experience."

Learning Organizations

In a 1993 article, Harvard Business School professor David Garvin defined a **learning organization** as "an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights[13]." The five building blocks of learning organizations are:

1. *Systematic problem solving*: The company must have a consistent method for solving problems, using data and statistical tools rather than

assumptions.

2. *Experimentation*: Experiments are a way to test ideas in small steps. Experiments let companies hunt for and test new knowledge, such as new ways of recycling waste or of structuring an incentive program.

3. *Learning from past experience*: It's essential for companies to review projects and products to learn what worked and what didn't. Boeing, for example, systematically gathered hundreds of "lessons learned" from previous airplane models, such as the 737 and 747, which it applied to the 757s and 767s, making those the most successful, error-free launches in Boeing's history.

4. *Learning from others*: Recognizing that good ideas come from anywhere, not just inside the company, learning organizations network with other companies in a continual search for good ideas to adapt and adopt.

5. *Transferring knowledge*: Sharing knowledge quickly throughout the organization is the way to make everyone a smart, contributing member.

Virtual Organizations

A **virtual organization** is one in which employees work remotely—sometimes within the same city, but more often across a country and across national borders. The company relies on computer and telecommunications technologies instead of physical presence for communication between employees. E-mail, wikis, Web meetings (i.e., like Webex or GoToMeeting), phone, and Internet relay chat (IRC) are used extensively to keep everyone in touch. Virtual companies present special leadership challenges because it's essential for leaders to keep people informed of what they are supposed to be doing and what other arms of the organization are doing. Communication in a commons area is preferable to one-on-one communication because it keeps everyone up to speed and promotes learning across the organization.

The Value of Wikis

Wikis provide companies with a number of benefits.[14]

- Wikis pool the talent of experts as well as everyone from across the company and beyond it—in all time zones and geographic locations.
- Input from unanticipated people brings fresh ideas and unexpected connections.
- Wikis let people contribute to a project any time, giving them flexibility in managing their time.
- It's easy to see the evolution of an idea, and new people can get up to speed quickly by seeing the history of the project.
- Co-creation of solutions eliminates the need to "sell" those solutions to get buy-in.
- Wikis cut the need for e-mail by 75% and the need for meetings by 50%.

With more and more companies outsourcing work to other countries, managers are turning to tools like wikis to structure project work globally. A **wiki** is a way for many people to collaborate and contribute to an online document or discussion (see "The Value of Wikis"). The document remains available for people to access anytime. The most famous example is Wikipedia. A wikified organization puts information into everyone's hands. Managers don't just talk about empowering workers—the access to information and communication empowers workers directly. People who are passionate about an idea can tap into the network to make the idea happen. Customers, too, can rally around an issue and contribute their opinions.

Many companies that are not solely virtual use the principles of a virtual organization as a way to structure the work of globally distributed teams. VeriFone, one of the largest providers of electronic payment systems worldwide, has development teams working on software projects around the world. In what the company calls a "relay race," developers in Dallas working on a rush project send unfinished work at quitting time to another development center in Laupahoehoe, Hawaii. When the sun sets there, the project is handed off to programmers in Bangalore, India, for further work, and by morning, it's back in Dallas, 16 hours

closer to completion. Similarly, midwestern Paper Converting Machine Co. (PCMC) outsourced some design work to Chennai, India. Having U.S. and Indian designers collaborate 24/7 has helped PCMC slash development costs and time, enabling the company to stay in business, according to CEO Robert Chapman. Chapman said, ""We can compete and create great American jobs, but not without offshoring[15]." Virtual organizations also pose management challenges. In practical terms, if everyone is empowered to be a decision maker but various people disagree, how can decisions be made? If all workers can work at the times they choose, how can management be sure that workers are doing their work—as opposed to reading Web sites for fun, shopping, or networking with friends—and that they are taking appropriate breaks from work to avoid burnout? There are also challenges related to the virtual environment's dependence on computers and Web security.

KEY TAKEAWAYS

- In today's fast-changing world, organizations are becoming more like social movements, with more fluid boundaries and more participation in leadership across all levels.

- Social networks within corporations let employees find out about one another and access the people who have the skills, knowledge, or connections to get the job done.

- Continuous learning is important, not just for individuals but for organizations as a whole, to transfer knowledge and try out new ideas as the pace of change increases.

- Virtual organizations can speed up cycle time, but they pose new challenges for managers on how to manage remote workers. Communications technologies and the Web let employees work from anywhere—around the corner or around the world—and require special attention to managing communication.

Global Trends

LEARNING OBJECTIVES

1. What are the top 10 ways that the world is changing?

2. What is the pace of these changes?

As the summary "Top Trends" suggests, we are living in exciting times, and you're at the forefront of it. The world is changing in dramatic ways, and as a manager, you're in the best position to take advantage of these changes. Let's look at 10 major ways in which the world is changing; we'll characterize the first five as challenges and the next five as solutions.

Top Trends
Top 5 Challenge Trends

1. Increasing Concern for the Environment

2. Greater Personalization and Customization

3. Faster Pace of Innovation

4. Increasing Complexity

5. Increasing Competition for Talent

Top 5 Solution Trends

1. Becoming More Connected

2. Becoming More Global

3. Becoming More Mobile

4. Rise of the Creative Class

5. Increasing Collaboration

Top 5 Challenge Trends

Increasing Concern for the Environment
We all seem to believe that the weather has been getting weirder in recent

decades, and analysis by the National Oceanic and Atmospheric Administration

(NOAA) suggests that there have been more catastrophic weather events in recent years than 10–20 years ago.[16]

People are seeing the growing threat of global warming, which is leading to failing crops, rising sea levels, shortages of drinking water, and increasing death tolls from disease outbreaks such as malaria and dengue fever. Currently, 175 nations have signed the Kyoto Protocol on climate change and pledged to begin the long process of reducing greenhouse gas emissions. According to McKinsey's Global Survey of Business Executives, executives across the world believe that business plays a wider role in society and has responsibility to address issues such as environmental concerns beyond just following the letter of the law to minimize pollution. More and more companies now watch the "triple bottom line"—the benchmark of how they benefit, not just profits but also (2) employees and (3) the environment as a whole. Companies realize they have to take bold steps to minimize their carbon footprint, create environmentally friendly products, and manage the company for more than just the next quarter's profits. Managers can't simply "greenwash" (pretend to be green through tiny steps and heavy advertising).

Greater Personalization and Customization

We're no longer happy with cookie-cutter products. Consumers are demanding more say in products and services. One size no longer fits all, and that means tailoring products and services to meet specific customer preferences. And as companies sell their products globally, that tailoring has to meet vastly different needs, cultural sensitivities, and income levels. Even something simple such as Tide laundry detergent can come in hundreds of potential variants in terms of formulations (powders, liquids, tablets), additives (whiteners, softeners, enzymes), fragrances (unscented, mountain fresh, floral), and package sizes (from single-load laundromat sizes to massive family/economy sizes). Customization and the growing numbers of products mean managing more services and more products. For example, for just $4.99 plus shipping, you can create your own Kleenex oval tissue box![17] Managing for mass production won't suffice in the future.

Faster Pace of Innovation

We all want the next new thing, and we want it now. New models, new products, and new variations—companies are speeding new products to market in response to customer demands. The Finland- based mobile phone maker Nokia sells 150 different devices, of which 50–60 are newly introduced each year. The new variations are tailored to local languages, case colors, carriers, add-ons, and content. David Glazer, engineering director at Google, explained how his company adapts to this fast pace: "Google has a high tolerance for chaos and ambiguity. When we started OpenSocial [a universal platform for social-network applications], we didn't know what the outcome was going to be." So Google started running a bunch of experiments. "We set an operational tempo: when in doubt, do something," Glazer said, "If you have two paths and you're not sure which is right, take the fastest path[18]."

Increasing Complexity

Because we want more sustainability, more customization, and more innovation, companies face growing complexity. Nokia's 50–60 new phone models a year all have 300–400 components, some of which contain millions or hundreds of millions of transistors. Those components have to arrive at the right manufacturing location (Nokia has 10 worldwide) from whichever country they originated and arrive just in time to be manufactured.

Increasing Competition for Talent

We need people who can solve all these tough problems, and that's a challenge all by itself. According to McKinsey's global survey of trends, business executives think that this trend, among all trends, will have the greatest effect on their companies in the next five years. Jobs are also getting more complex. Consider people who work in warehouses doing shipping and receiving. At Intel, these workers were jokingly called "knuckle-dragging box pushers" and known for using their brawn to move boxes. Now, the field of transportation and shipping has become known as "supply chain management" and employees need brains as well as brawn—they need to know science and advanced math. They're called on to

do mathematical models of transportation networks to find the most efficient trucking routes (to minimize environmental impact) and to load the truck for balance (to minimize fuel use) and for speed of unloading at each destination. Intel now acknowledges the skills that supply chain people need. The company created a career ladder leading to "supply chain master" that recognizes employees for developing expertise in supply chain modeling, statistics, risk management, and transportation planning. Overall, demand will grow for new types of talent such as in the green energy industry. At the same time, companies face a shrinking supply of seasoned managers as baby boomers retire in droves. Companies will have to deal with shortages of specific skills.

Top 5 Solution Trends

Becoming More Connected

We can now use the Internet and World Wide Web to connect people with people as never before. By mid-2008, more than 1.4 billion people were online, and that number continues to increase each year as the developing world catches up with the developed world on Internet usage.[19] Through over a 100 million Web sites, we can access information, words, sounds, pictures, and video with an ease previously unimaginable.

Becoming More Global

We can now tap into more global suppliers and global talent. Whatever problem a manager faces, someone in the world probably has the innovative products, the knowledge, or the talent to address the problem. And the Internet gives managers to the tools to help problems find solutions, customers find suppliers, and innovators find markets. The global problems we face will require people to work together to solve them. Ideas need to be shaped and implemented. Moving ideas around the world is a lot less costly and generates less greenhouse gases than moving people and products around the world. Organizations and social movements alike are using social networking to help people find others with the skills and talents to solve pressing problems.

Becoming More Mobile

We can now reach employees, suppliers, and customers wherever they are. By the end of 2008, 60% of the world's population—4 billion people—were using mobile phones.[20] And, like Internet use, mobile phone adoption continues to grow. The penetration of mobile phones is changing the way we do business because people are more connected and able to share more information. Two-way, real-time dialogue and collaboration are available to people anytime, anywhere. The low cost of phones compared with computers puts them in the hands of more people around the world, and the increasing sophistication of software and services for the phone expands its use in business settings. Phones are not just a voice communication device—they can send text as well as be a connective device to send data. The fastest mobile phone growth is in developing countries, bringing connectivity to the remotest regions. Fisherman off the coast of southern India can now call around to prospective buyers of their catch before they go ashore, which is increasing their profits by 8% while actually lowering the overall price consumers have to pay for fish by 4%[21]. In South Africa, 85% of small black-owned businesses rely solely on mobile phones. Nokia has 120,000 outlets selling phones in India, where half the population lives in rural areas, not cities.

Rise of the Creative Class

With blogs, Flickr, and YouTube, anyone can post their creative efforts. And with open source and wikis, anyone can contribute ideas and insights. We have ubiquitous opportunities for creativity that are nurturing a new creative class. For example, *OhmyNews*, a popular newspaper, is written by 60,000 contributing "citizen reporters." It has become one of South Korea's most influential news sources, with more than 750,000 unique users a day[22]. The demand for workers and ability for workers to work from anywhere may lead to an "e-lance economy." Workers may become free agents, working temporarily on one project and then moving to another when that project is done. Mobile connectivity means these new workers can live anywhere in the world and can work from anywhere in their community. For you as a manager, this means managing workers who might be in

a cubicle in Columbus, Ohio, an apartment in Amsterdam, or an Internet café in Bangalore.

Increasing Collaboration

These solution trends combine to foster a rise in collaboration across space and time. We can now bring more people together to solve more problems more quickly. To design new products quickly—and make sure they meet consumer needs—companies are now looking beyond their four walls for innovation. Google, for example, identifies itself as an organization that believes in open, decentralized innovation. "Google can't do everything. And we shouldn't," said Andy Rubin, senior director of Mobile Platforms[23]. "While the handset alliance is about open cell phones (i.e., phones that aren't tied to any particular phone company and can be programmed by users just like Apple or Palm's "apps"), collaboration means much more than communications. People can now not just communicate but actually collaborate, building coalitions, projects, and products[24]. Groups self-organize on the Web. For example, the MIT-based Vehicle Design Summit is virtual, so students from around the world can participate. The goal is to make a low-cost, 200-mpg four-seater for the Indian market; in 2008, about 200 students participated in this international open-source project.[25] A cross section of more trend predictions follows.

Trends, Trends, Trends

It seems that trend-tracking has become somewhat of a business. Glance over these top trends from the editors of *Wired, McKinsey Quarterly*, and *USA Today*.

Wired 2008 Business Trends[26]

1. Open Source Tycoons
2. Social Networks Grow Up
3. Green on the Outside
4. Invisible Internet
5. Rise of the Instapreneur
6. Building a Better Banner

7. Invented in China
8. VCs Look for a New Life
9. The Human Touch

Top business trends likely to have the greatest effect on business over the next five years[27]

1. Competition for talent will intensify, become more global.
2. Centers of economic activity will shift globally, regionally.
3. Technological connectivity will increase.
4. Ubiquitous access to information will change economics of knowledge.
5. Demand for natural resources will grow, as will strain on environment.
6. Population in developed economies will age.
7. Consumer landscape will change, expand significantly.
8. Role, behavior of business will come under increasing scrutiny.
9. Organizations will become larger, more complex.
10. New global industry structures will emerge (e.g., private equity, networked).

Countdown of the biggest trends in small business[28]

1. Web 2.0
2. Rise of e-marketing
3. Little is the new big
4. The new consumer
5. Fragmentation
6. The world is getting flatter
7. Personalization
8. Work anywhere, any place
9. Global warming may put you out of business

Globalization and Principles of Management

LEARNING OBJECTIVES

1. Why might global trends influence management principles?
2. What is the GLOBE project, and why is it relevant to management?
3. What is a cultural dimension, and how do cultural dimensions affect business dealings and management decisions?

Globalization and Cross-Cultural Lessons

Despite the growing importance of global business, *Fortune* 500 companies have reported a shortage of global managers with the necessary skills[29]. Some experts have argued that most U.S. companies are not positioned to implement global strategies due to a lack of global leadership capabilities[30]. It's easy to understand the problem: communicating and working with people from different countries can be a challenge—not just because of language issues but also because of different

cultural norms. For example, in the United States, we tend to be direct in our communication. If you ask a U.S. manager a question, you'll tend to get a direct answer. In other cultures, particularly in southern Europe and Japan, the answer to a question begins with background and context—not the bottom line—so that the listener will understand how the person arrived at the conclusion. Similarly, in some cultures, it is considered rude to deliver bad news or say "no" to a request— instead, the speaker would give a noncommittal answer like "we'll see" or "we'll try."

Country-by-country differences are so prevalent that a worldwide team of scholars proposed to create and validate a theory of the relationship between culture and societal, organizational, and leadership effectiveness. Called the GLOBE Project, it included 170 researchers working together for 10 years to collect and analyze data on cultural values and practices and leadership attributes from more than 17,000 managers in 62 societal cultures. In its 2006 report, GLOBE identified the following nine dimensions of culture[31].

Performance Orientation

Should you reward people for performance improvement and excellence? In countries like the United States and Singapore, the answer is yes. Organizations in these countries use employee training and development to help people improve their skills and performance. In countries like Russia and Greece, however, family and background count for more than performance.

Uncertainty Avoidance

Life often brings unpredictable events, and with them anxiety. **Uncertainty avoidance** reflects the extent to which members of a society attempt to cope with anxiety by minimizing uncertainty. Should you establish rules, procedures, and social norms to help your employees deal with uncertainty? In countries where uncertainty avoidance is high, like Brazil and Switzerland, the answer is yes. People in such societies want strict rules, laws, and policies to eliminate or control the unexpected. Employees in these countries tend to seek order, consistency,

and structure. Countries with low uncertainty avoidance, in contrast, are less rule-oriented. They tolerate a variety of opinions and are open to change and taking risks. Countries with low uncertainty avoidance include Hong Kong and Malaysia.

Assertiveness

How assertive, confrontational, or aggressive should you be in relationships with others? In highly assertive countries like the United States and Austria, competition between individuals and groups is encouraged. Managers may set up incentives that reward the best idea, even if it's contrary to established practices. People in less assertive countries, like Sweden and New Zealand, prefer harmony in relationships and emphasize loyalty and solidarity.

Power Distance

Power distance reflects the extent to which the less powerful members of institutions and organizations expect and accept that power is distributed unequally. Should you distribute decision- making power equally among the group? In high-power-distance countries like Thailand, Brazil, and France, the answer is no. People in these societies expect unequal power distribution and greater stratification, whether that stratification is economic, social, or political. People in positions of authority in these countries expect (and receive) obedience. Decision making is hierarchical with limited participation and communication. Australia, in contrast, has a power distance rating that is much lower than the world average. The Australian view reinforces cooperative interaction across power levels and stresses equality and opportunity for everyone.

Gender Egalitarianism

Should you promote men rather than women? Counties with low gender egalitarianism are male dominated. Men hold positions of power to a much greater extent in low-gender-egalitarianism countries like Egypt and South Korea. Companies operating in more gender-egalitarian countries such as the Nordic countries, Germany, and the Netherlands encourage tolerance for diversity of ideas and roles regardless of gender.

Institutional Collectivism

Institutional collectivism refers to the extent to which people act predominantly as a member of a lifelong group or organization. Should you reward groups rather than individuals? In countries with high institutional collectivism such as Sweden, the answer is yes. Countries with low institutional collectivism, such as in the United States, emphasize individual achievement and rewards.

Humane Orientation

Should you reward people for being fair, altruistic, generous, and kind to others? In countries such as Malaysia, this practice is more prevalent and encouraged than in low-humane-orientation countries such as Germany.

Future Orientation

Will your employees favor activities that involve planning and investing in the future for long-term payoff? Or do they want to see short-term results? **Future orientation** is defined as one's expectations and the degree to which one is thoughtful about the future. It is a multifaceted concept that includes planning, realism, and a sense of control. Companies in countries with high future orientation, such as China and Singapore, will have a longer-term planning horizon, and they will be more systematic about planning. Corporations in countries that are the least future-oriented, such as Argentina and Russia, will be more opportunistic and less systematic. At the same time, they'll be less risk averse.

Global Ventures Gone Awry

When Corning proposed a joint venture with a Mexican glass manufacturer, Vitro, the match seemed made in heaven. But just two years later, the venture was terminated. What happened? Cultural clashes eroded what could have been a lucrative partnership. To start, American managers were continually frustrated with what they perceived to be slow decision making by Mexican managers. Mexico ranks higher on the power distance dimension than the United States—company structures are hierarchical, and decisions are made only by top managers. Loyalty to these managers is a high priority in Mexico, and trying to work around them is a

big taboo. Mexicans also have a less urgent approach to time. They see time as more abundant than their U.S. counterparts. As a result, Mexicans thought that Americans wanted to move too fast on decisions, and they perceived American directness in communication as aggressive[32]. Additional vignettes on managing across borders are shared next.

Managing Across Borders

Lines on the Map Miss the Real Story

Diversity is deeper than variations between countries. Sometimes those differences appear in different regions of the same country. For example, some parts of Mexico don't use Spanish as the primary language. Wal-Mart's Mexico's Juchitan store, therefore, conducts business in the local Zapotec tongue, encourages female employees to wear traditional Zapotec skirts, and does the morning company cheer in Zapotec.

Talent Abroad

With so much variation across countries, it's no surprise that countries vary in level of talent and the supply of managerial, skilled, and unskilled labor. Companies shouldn't assume that emerging market countries offer inferior labor pools. GM, for instance, found that 50% of its assembly-line workers in India have college degrees—a ratio much higher than in other countries.

Local Solutions by People Who Understand Local Needs

Nokia uses local designers to create country-specific handset models. The models designed in India for Indians are dust resistant and have a built-in flashlight. The models designed in China for the Chinese have a touch screen, stylus, and Chinese character recognition. Local designers are more likely to understand the needs of the local population than headquarters-located designers do[33].

KEY TAKEAWAYS

- Because the business environment increasingly depends on collaboration across regional and national borders, a successful global manager needs to be culturally sensitive and have an understanding for how business is done in different cultures.

- In some countries, loyalty to the group is key. Other countries celebrate mavericks and rule breakers if they can get things done.

- Knowing how best to communicate with your coworkers and employees—whether to be direct or indirect, whether to follow strict protocol or be more causal, whom to involve in decisions—are all important considerations.

Chapter 2 Review Questions

Multiple Choice:

1. He helped develop the principles of scientific management
   a. Drucker
   b. Fayol
   c. Gilbreth
   d. Taylor

2. He was the first scholar to write about how to manage knowledge.
   a. Drucker
   b. Fayol
   c. Gilbreth
   d. Taylor

3. Within contemporary principles of management, this is one in which employees work remotely.
   a. learning organizations
   b. social movements
   c. social networking
   d. virtual organizations

4. This reflects the extent to which members of a society attempt to cope with anxiety.
   a. assertiveness
   b. institutional collectivism
   c. power distance
   d. uncertainty avoidance

Short Answer:

- Within contemporary principles of management, describe the five building blocks of learning organizations.

- Within global trends, describe the top five solution trends.

- GLOBE identified what are the nine dimensions of culture?

Chapter 3 Developing Mission, Vision, and Values

Reading this chapter will help you do the following:

1. Understand the roles of mission, vision, and values in the planning process.
2. Understand how mission and vision fit into the planning-organizing- leading-controlling (P-O-L-C) framework.
3. See how creativity and passion are related to vision.
4. Incorporate stakeholder interests into mission and vision.
5. Develop statements that articulate organizational mission and vision.
6. Apply mission, vision, and values to your personal goals and professional career.

As you are reminded in the figure, the letter "P" in the P-O-L-C framework stands for "planning." Good plans are meant to achieve something—this *something* is captured in verbal and written statements of an organization's mission and vision (its *purpose*, in addition to specific goals and objectives). With a mission and vision, you can craft a strategy for achieving them, and your benchmarks for judging your progress and success are clear goals and objectives. Mission and vision communicate the organization's values and purpose, and the best mission and vision statements have an emotional component in that they incite employees

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 5 Mission and Vision as P-O-L-C Components

to delight customers. The three "planning" topics of your principles of

management cover (1) mission and vision, (2) strategy, and (3) goals and objectives. The figure below summarizes how these pieces work together.

Figure 6 Mission and Vision in the Planning Process

The Roles of Mission, Vision, and Values

LEARNING OBJECTIVES

1. Be able to define mission and vision.
2. See how values are important for mission and vision.

3. Understand the roles of vision, mission, and values in the P-O-L-C framework.

Mission, Vision, and Values

Mission and vision both relate to an organization's purpose and are typically communicated in some written form. Mission and vision are statements from the organization that answer questions about who we are, what we value, and where we're going. A study by the consulting firm Bain and Company reports that 90% of the 500 firms surveyed issue some form of mission and vision statements[34]. Moreover, firms with clearly communicated, widely understood, and collectively shared mission and vision have been shown to perform better than those without them, with the caveat that they related to effectiveness only when strategy and goals and objectives were aligned with them as well[35].

A **mission statement** communicates the organization's reason for being, and how it aims to serve its key stakeholders. Customers, employees, and investors are the stakeholders most often emphasized, but other stakeholders like government or communities (i.e., in the form of social or environmental impact) can also be discussed. Mission statements are often longer than vision statements. Sometimes mission statements also include a summation of the firm's values. **Values** are the beliefs of an individual or group, and in this case the organization, in which they are emotionally invested. The Starbucks mission statement describes six guiding principles that, as you can see, also communicate the organization's values[36]:

1. *Provide a great work environment and treat each other with respect and dignity.*
2. *Embrace diversity as an essential component in the way we do business.*
3. *Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.*
4. *Develop enthusiastically satisfied customers all of the time.*
5. *Contribute positively to our communities and our environment.*

6. *Recognize that profitability is essential to our future success.*

Similarly, Toyota declares its global corporate principles to be[37]:

- *Honor the language and spirit of the law of every nation and undertake open and fair corporate activities to be a good corporate citizen of the world.*
- *Respect the culture and customs of every nation and contribute to economic and social development through corporate activities in the communities.*
- *Dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through all our activities.*
- *Create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide.*
- *Foster a corporate culture that enhances individual creativity and teamwork value, while honoring mutual trust and respect between labor and management.*
- *Pursue growth in harmony with the global community through innovative management.*
- *Work with business partners in research and creation to achieve stable, long-term growth and mutual benefits, while keeping ourselves open to new partnerships.*

A **vision statement,** in contrast, is a future-oriented declaration of the organization's purpose and aspirations. In many ways, you can say that the mission statement lays out the organization's "purpose for being," and the vision statement then says, "based on that purpose, this is what we want to become." The strategy should flow directly from the vision, since the strategy is intended to achieve the vision and thus satisfy the organization's mission. Typically, vision statements are relatively brief, as in the case of Starbuck's vision statement, which reads: "Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow."

Any casual tour of business or organization Web sites will expose you to the range

of forms that mission and vision statements can take. To reiterate, mission statements are longer than vision statements, often because they convey the organizations core values. Mission statements answer the questions of "Who are we?" and "What does our organization value?" Vision statements typically take the form of relatively brief, future-oriented statements—vision statements answer the question "Where is this organization going?" Increasingly, organizations also add a **values statement** which either reaffirms or states outright the organization's values that might not be evident in the mission or vision statements.

Roles Played by Mission and Vision

Mission and vision statements play three critical roles: (1) communicate the purpose of the organization to stakeholders, (2) inform strategy development, and (3) develop the measurable goals and objectives by which to gauge the success of the organization's strategy. These interdependent, cascading roles, and the relationships among them, are summarized in the figure.

Figure 7 Key Roles of Mission and Vision

First, mission and vision provide a vehicle for communicating an organization's purpose and values to all key stakeholders. Stakeholders are those key parties who have some influence over the organization or stake in its future. You will learn more about stakeholders and stakeholder analysis later in this chapter; however, for now, suffice it to say that some key stakeholders are employees, customers, investors, suppliers, and institutions such as governments. Typically, these statements would be widely circulated and discussed often so that their meaning is widely understood, shared, and internalized. The better employees understand an

organization's purpose, through its mission and vision, the better able they will be to understand the strategy and its implementation.

Second, mission and vision create a target for strategy development. That is, one criterion of a good strategy is how well it helps the firm achieve its mission and vision. To better understand the relationship among mission, vision, and strategy, it is sometimes helpful to visualize them collectively as a funnel. At the broadest part of the funnel, you find the inputs into the mission statement. Toward the narrower part of the funnel, you find the vision statement, which has distilled down the mission in a way that it can guide the development of the strategy. In the narrowest part of the funnel you find the strategy—it is clear and explicit about what the firm will do, and not do, to achieve the vision. Vision statements also provide a bridge between the mission and the strategy. In that sense the best vision statements create a tension and restlessness with regard to the status quo—that is, they should foster a spirit of continuous innovation and improvement. For instance, in the case of Toyota, its "moving forward" vision urges managers to find newer and more environmentally friendly ways of delighting the purchaser of their cars. London Business School professors Gary Hamel and C. K. Prahalad describe this tense relationship between vision and strategy as stretch and ambition. Indeed, in a study of such able competitors as CNN, British Airways, and Sony, they found that these firms displaced competitors with stronger reputations and deeper pockets through their ambition to stretch their organizations in more innovative ways[38].

Third, mission and vision provide a high-level guide, and the strategy provides a specific guide, to the goals and objectives showing success or failure of the strategy and satisfaction of the larger set of objectives stated in the mission. In the cases of both Starbucks and Toyota, you would expect to see profitability goals, in addition to metrics on customer and employee satisfaction, and social and environmental responsibility.

- Mission and vision both relate to an organization's purpose and aspirations, and are typically communicated in some form of brief written statements.

- A mission statement communicates the organization's reason for being and how it aspires to serve its key stakeholders.

- The vision statement is a narrower, future-oriented declaration of the organization's purpose and aspirations.

- Together, mission and vision guide strategy development, help communicate the organization's purpose to stakeholders, and inform the goals and objectives set to determine whether the strategy is on track.

Mission and Vision in the P-O-L-C Framework

LEARNING OBJECTIVES

1. Understand the role of mission and vision in organizing.
2. Understand the role of mission and vision in leading.
3. Understand the role of mission and vision in controlling.

Mission and vision play such a prominent role in the *planning* facet of the P-O-L-C framework. However, you are probably not surprised to learn that their role does not stop there. Beyond the relationship between mission and vision, strategy, and goals and objectives, you should expect to see mission and vision being related to the *organizing, leading,* and *controlling* aspects as well. Let's look at these three areas in turn.

Mission, Vision, and Organizing

Organizing is the function of management that involves developing an

organizational structure and allocating human resources to ensure the accomplishment of objectives. The organizing facet of the P-O-L- C framework typically includes subjects such as organization design, staffing, and organizational culture. With regard to organizing, it is useful to think about alignment between the mission and vision and various organizing activities. For instance, **organizational design** is a formal, guided process for integrating the people, information, and technology of an organization. It is used to match the form of the organization as closely as possible to the purpose(s) the organization seeks to achieve. Through the design process, organizations act to improve the probability that the collective efforts of members will be successful.

Organization design should reflect and support the strategy—in that sense, organizational design is a set of decision guidelines by which members will choose appropriate actions, appropriate in terms of their support for the strategy. As you learned in the previous section, the strategy is derived from the mission and vision statements and from the organization's basic values. Strategy unifies the intent of the organization and focuses members toward actions designed to accomplish desired outcomes. The strategy encourages actions that support the purpose and discourages those that do not.

To organize, you must connect people with each other in meaningful and purposeful ways. Further, you must connect people—human resources—with the information and technology necessary for them to be successful. Organization structure defines the formal relationships among people and specifies both their roles and their responsibilities. Administrative systems govern the organization through guidelines, procedures, and policies. Information and technology define the process(es) through which members achieve outcomes. Each element must support each of the others, and together they must support the organization's purpose, as reflected in its mission and vision.

For example, in 2006, Disney acquired Pixar, a firm is renowned for its creative prowess in animated entertainment. Disney summarizes the Pixar strategy like

this: "Pixar's [strategy] is to combine proprietary technology and world-class creative talent to develop computer-animated feature films with memorable characters and heartwarming stories that appeal to audiences of all ages[39]." Disney has helped Pixar achieve this strategy through an important combination of structural design choices. First, Pixar is an independent division of Disney and is empowered to make independent choices in all aspects of idea development. Second, Pixar gives its "creatives"—its artists, writers, and designers—great leeway over decision making. Third, Pixar protects its creatives' ability to share work in progress, up and down the hierarchy, with the aim of getting it even better. Finally, after each project, teams conduct "postmortems" to catalog what went right and what went wrong. This way, innovations gained through new projects can be shared with later projects, while at the same time sharing knowledge about potential pitfalls[40].

Organizational culture is the workplace environment formulated from the interaction of the employees in the workplace. Organizational culture is defined by all of the life experiences, strengths, weaknesses, education, upbringing, and other attributes of the employees. While executive leaders play a large role in defining organizational culture by their actions and leadership, all employees contribute to the organizational culture.

As you might imagine, achieving alignment between mission and vision and organizational culture can be very powerful, but culture is also difficult to change. This means that if you are seeking to change your vision or mission, your ability to change the organization's culture to support those new directions may be difficult, or, at least, slow to achieve.

For instance, in 2000, Procter & Gamble (P&G) sought to change a fundamental part of its vision in a way that asked the organization to source more of its innovations from external partners. Historically, P&G had invested heavily in research and development and internal sources of innovation—so much so that "not invented here" (known informally as NIH) was the dominant cultural mind-

set[41].

NIH describes a sociological, corporate, or institutional culture that avoids using products, research, or knowledge that originated anywhere other than inside the organization. It is normally used in a pejorative sense. As a sociological phenomenon, the "not invented here" syndrome is manifested as an unwillingness to adopt an idea or product because it originates from another culture. P&G has been able to combat this NIH bias and gradually change its culture toward one that is more open to external contributions, and hence in much better alignment with its current mission and vision.

Social networks are often referred to as the "invisible organization." They consist of individuals or organizations connected by one or more specific types of interdependency. You are probably already active in social networks through such Web communities as MySpace, Facebook, and LinkedIn. However, these sites are really only the tip of the iceberg when it comes to the emerging body of knowledge surrounding social networks. Networks deliver three unique advantages: access to "private" information (i.e., information that companies do not want competitors to have), access to diverse skill sets, and power. You may be surprised to learn that many big companies have breakdowns in communications even in divisions where the work on one project should be related to work on another. Going back to our Pixar example, for instance, Disney is fostering a network among members of its Pixar division in a way that they are more likely to share information and learn from others. The open internal network also means that a cartoon designer might have easier access to a computer programmer and together they can figure out a more innovative solution. Finally, since Pixar promotes communication across hierarchical levels and gives creatives decision-making authority, the typical power plays that might impede sharing innovation and individual creativity are prevented. Managers see these three network advantages at work every day but might not pause to consider how their networks regulate them.

Mission, Vision, and Leading

Leading involves influencing others toward the attainment of organizational objectives. Leading and leadership are nearly synonymous with the notions of mission and vision. We might describe a very purposeful person as being "on a mission." As an example, Steve Demos had the personal mission of replacing cow's milk with soy milk in U.S. supermarkets, and this mission led to his vision for, and strategy behind, the firm White Wave and its Silk line of soy milk products[42]. Similarly, we typically think of some individuals as leaders because they are visionary. For instance, when Walt Disney suggested building a theme park in a Florida swamp back in the early 1960s, few other people in the world seemed to share his view.

Any task—whether launching Silk or building the Disney Empire—is that much more difficult if attempted alone. Therefore, the more that a mission or vision challenges the status quo—and recognizing that good vision statements always need to create some dissonance with the status quo—the greater will be the organization's need of what leadership researcher Shiba calls "real change leaders"—people who will help diffuse the revolutionary philosophy even while the leader (i.e., the founder or CEO) is not present. Without real change leaders, a revolutionary vision would remain a mere idea of the visionary CEO—they are the ones who make the implementation of the transformation real.

In most cases where we think of revolutionary companies, we associate the organization's vision with its leader—for instance, Apple and Steve Jobs, Dell and Michael Dell, or Google with the team of Sergey Brin and Larry Page. Most important, in all three of these organizations, the leaders focused on creating an organization with a noble mission that enabled the employees and management team to achieve not only the strategic breakthrough but to also realize their personal dreams in the process. Speaking to the larger relationship between mission, vision, strategy, and leadership, are the eight p rinciples of visionary leadership, derived from Shiba's 2001 book, *Four Practical Revolutions in Management[43].*

Eight Principles of Visionary Leadership

Principle 1: The visionary leader must do on-site observation leading to personal perception of changes in societal values from an outsider's point of view.

Principle 2: Even though there is resistance, never give up; squeeze the resistance between outside-in (i.e., customer or society-led) pressure in combination with top-down inside instruction.

Principle 3: Revolution is begun with symbolic disruption of the old or traditional system through top-down efforts to create chaos within the organization.

Principle 4: The direction of revolution is illustrated by a symbolically visible image and the visionary leader's symbolic behavior.

Principle 5: Quickly establishing new physical, organizational, and behavioral systems is essential for successful revolution.

Principle 6: Real change leaders are necessary to enable revolution.

Principle 7: Create an innovative system to provide feedback from results.

Principle 8: Create a daily operation system, including a new work structure, new approach to human capabilities and improvement activities.

Vision That Pervades the Organization

A broader definition of visionary leadership suggests that, if many or most of an organization's employees understand and identify with the mission and vision, efficiency will increase because the organization's members "on the front lines" will be making decisions fully aligned with the organization's goals. Efficiency is achieved with limited hands-on supervision because the mission and vision serve as a form of cruise control. To make frontline responsibility effective, leadership must learn to trust workers and give them sufficient opportunities to develop

quality decision-making skills.

The classic case about Johnsonville Sausage, recounted by CEO Ralph Stayer, documents how that company dramatically improved its fortunes after Stayer shared responsibility for the mission and vision, and ultimately development of the actual strategy, with all of his employees. His vision was the quest for an answer to "What Johnsonville would have to be to sell the most expensive sausage in the industry and still have the biggest market share?[44]" Of course, he made other important changes as well, such as decentralizing decision making and tying individual's rewards to company-wide performance, but he initiated them by communicating the organization's mission and vision and letting his employees know that he believed they could make the choices and decisions needed to realize them.

Mission and vision are also relevant to leadership well beyond the impact of one or several top executives. Even beyond existing employees, various stakeholders— customers, suppliers, prospective new employees—are visiting organizations' Web sites to read their mission and vision statements. In the process, they are trying to understand what kind of organization they are reading about and what the organization's values and ethics are. Ultimately, they are seeking to determine whether the organization and what it stands for are a good fit for them.

Vision, Mission, and Controlling
Controlling involves ensuring that performance does not deviate from standards. Controlling consists of three steps: (1) establishing performance standards, (2) comparing actual performance against standards, and (3) taking corrective action when necessary. Mission and vision are both directly and indirectly related to all three steps.

Performance Standards
Recall that mission and vision tell a story about an organization's purpose and aspirations. Mission and vision statements are often ambiguous by design because they are intended to *inform* the strategy not *be* the strategy.

Nevertheless, those statements typically provide a general compass heading for the organization and its employees. For instance, vision may say something about innovativeness, growth, or firm performance, and the firm will likely have set measurable objectives related to these. Performance standards often exceed actual performance but, ideally, managers will outline a set of metrics that can help to predict the future, not just evaluate the past.

It is helpful to think about such metrics as leading, lagging, and pacing indicators. A **leading indicator** actually serves to predict where the firm is going, in terms of performance. For instance, General Electric asks customers whether they will refer it new business, and GE's managers have found that this measure of customer satisfaction does a pretty good job of predicting future sales. A **pacing indicator** tells you in real time that the organization is on track, for example, in on-time deliveries or machinery that is in operation (as opposed to being under repair or in maintenance). A **lagging indicator** is the one we are all most familiar with. Firm financial performance, for instance, is an accounting-based summary of how well the firm has done historically. Even if managers can calculate such performance quickly, the information is still historic and not pacing or leading. Increasingly, firms compile a set of such leading, lagging, and pacing goals and objectives and organize them in the form of a dashboard or Balanced Scorecard.

Actual Versus Desired Performance

The goals and objectives that flow from your mission and vision provide a basis for assessing actual versus desired performance. In many ways, such goals and objectives provide a natural feedback loop that helps managers see when and how they are succeeding and where they might need to take corrective action. This is one reason goals and objectives should ideally be specific and measurable. Moreover, to the extent that they serve as leading, lagging, and pacing performance metrics, they enable managers to take corrective action on any deviations from goals before too much damage has been done.

Corrective Action

Finally, just as mission and vision should lead to specific and measurable goals and objectives and thus provide a basis for comparing actual and desired performance, corrective action should also be prompted in cases where performance deviates negatively from performance objectives. It is important to point out that while mission and vision may signal the need for corrective action, because they are rather general, high-level statements they typically will not spell out what specific actions—that latter part is the role of strategy, and mission and vision are critical for good strategies but not substitutes for them. A mission and vision are statements of self- worth. Their purpose is not only to motivate employees to take meaningful action but also to give leadership a standard for monitoring progress. It also tells external audiences how your organization wishes to be viewed and have its progress and successes gauged.

Strategic human resources management (SHRM) reflects the aim of integrating the organization's human capital—its people—into the mission and vision. Human resources management alignment means to integrate decisions about people with decisions about the results an organization is trying to obtain. Research indicates that organizations that successfully align human resources management with mission and vision accomplishment do so by integrating SHRM into the planning process, emphasizing human resources activities that support mission goals, and building strong human resources/management capabilities and relationships[45].

Creativity and Passion

LEARNING OBJECTIVES

1. Understand how creativity relates to vision.
2. Develop some creativity tools.
3. Understand how passion relates to vision.

Creativity and passion are of particular relevance to mission and vision

statements. A simple definition of **creativity** is the power or ability to invent. We sometimes think of creativity as being a purely artistic attribute, but creativity in business is the essence of innovation and progress. **Passion** at least in the context we invoke here, refers to an intense, driving, or overmastering feeling or conviction. Passion is also associated with intense emotion compelling action. We will focus mostly on the relationship between creativity, passion, and vision in this section because organizational visions are intended to create uneasiness with the status quo and help inform and motivate key stakeholders to move the organization forward. This means that a vision statement should reflect and communicate something that is relatively novel and unique, and such novelty and uniqueness are the products of creativity and passion.

Creativity and passion can, and probably should, also influence the organization's mission. In many ways, the linkages might be clearest between creativity and vision statements and passion and mission statements because the latter is an expression of the organization's values and deeply held beliefs. Similarly, while we will discuss creativity and passion separately in this section, your intuition and experience surely tell you that creativity eventually involves emotion, to be creative, you have to care about—be passionate about—what you're doing.

Creativity and Vision

More recently, work by DeGraf and Lawrence, suggest a finer-grained view into the characteristics and types of creativity[46]. They argued that creativity "types" could be clustered based on some combination of flexibility versus control and internal versus external orientation. For the manager, their typology is especially useful as it suggests ways to manage creativity, as in simply hiring creative individuals. As summarized in the figure, their research suggests that there are four types of creativity: (1) investment (external orientation with high control), (2) imagination (external orientation with flexibility emphasis), (3) improvement (internal orientation with high control), and (4) incubation (internal orientation with flexibility emphasis).

The first type of creativity, *investment*, is associated with speed—being first and being fast. It is also a form of creativity fostered from the desire to be highly competitive. Perhaps one of the most recent examples of this type of creativity crucible is the beer wars—the battle for U.S. market share between SABMiller and Anheuser Busch (AB; Budweiser). Miller was relentless in attacking the quality of AB's products through its advertisements, and at the same time launched a myriad number of new products to take business from AB's stronghold markets[47]. The second type of creativity, *imagination*, is the form that most of us think of first. This type of creativity is characterized by new ideas and breakthroughs: Apple's stylish design of Macintosh computers and then game-changing breakthroughs with its iPod and iPhone. Oftentimes, we can tie this type of creativity to the drive or genius of a single individual, such as Apple's Steve Jobs.
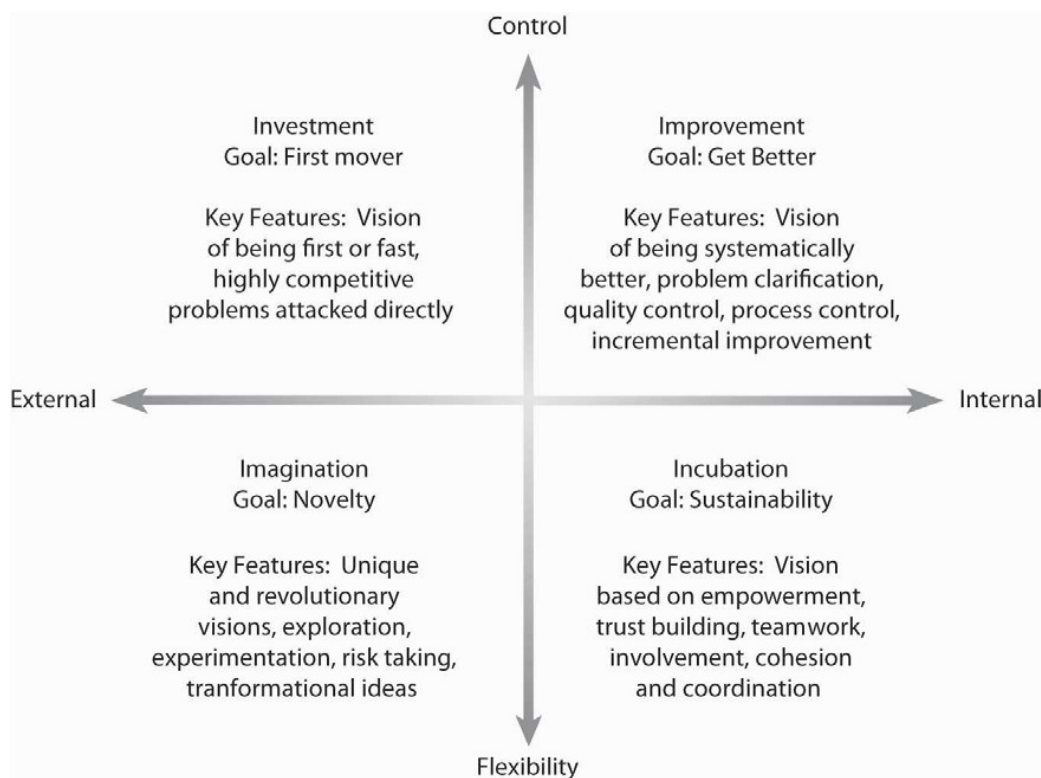
Figure 8 Four Creativity Types[48]

Where big ideas come from the imagination quadrant, *improvement* is a type of creativity that involves making an existing idea better. Two great examples of this

are McDonald's and Toyota. Ray Kroc, McDonald's founder, had the idea of creating quality and cooking standards for preparing tasty burgers and fries. While there were many other burger joints around at the time (the 1950s), Kroc's unique process-oriented approach gave McDonald's a big advantage. Similarly, Toyota has used the refinement of its automaking and auto- assembly processes (called the Toyota Business System) to be one of the largest and most successful, high-quality car makers in the world.

Finally, the fourth area of creativity is *incubation*. Incubation is a very deliberate approach that concerns a vision of sustainability—that is, leaving a legacy. This type of creativity is more complex because it involves teamwork, empowerment, and collective action. In their chapter on problem solving, David Whetten and Kim Cameron provide Gandhi as an example of incubation creativity:

> *"Mahatma Gandhi was probably the only person in modern history who has single-handedly stopped a war. Lone individuals have started wars, but Gandhi was creative enough to stop one. He did so by mobilizing networks of people to pursue a clear vision and set of values. Gandhi would probably have been completely noncreative and ineffective had he not been adept at capitalizing on incubation dynamics. By mobilizing people to march to the sea to make salt, or to burn passes that demarcated ethnic group status, Gandhi was able to engender creative outcomes that had not been considered possible. He was a master at incubation by connecting, involving, and coordinating people.*[49]*"*

While no one of these four types of creativity is best, they have some contradictory or conflicting characteristics. For example, imagination and improvement emphasize different approaches to creativity. The size of the new idea, for instance, is typically much bigger with imagination (i.e., revolutionary solutions) than with improvement (i.e., incremental solutions). Investment and incubation also are very different—investment is relatively fast, and the other relatively slow

(i.e., incubation emphasizes deliberation and development).

Creativity Tools

In this section, we introduce you to two creativity tools: SCAMPER and the Nominal Group Technique. This set of tools is not exhaustive but gives you some good intuition and resources to develop new ideas—either to craft a vision for a new company or revise an existing mission and vision. The first three tools can be used and applied individually or in groups; Nominal Group Technique is designed to bolster creativity in groups and can build on individual and group insights provided by the other tools.

All these tools help you to manage two divergent forms of thinking necessary for creativity—programmed thinking and lateral thinking. **Programmed thinking** often called left-brained thinking, relies on logical or structured ways of creating a new product or service. In terms of mission and vision, this means a logical and deliberate process is used to develop the vision statement. **Lateral thinking,** a term coined by Edward DeBono in his book *The Use of Lateral Thinking* (1967), is about changing patterns and perceptions; it is about ideas that may not be obtainable by using only traditional step- by-step, programmed, logic[50]. Each type of approach—programmed versus lateral—has its strength. Logical and disciplined programmed thinking is enormously effective in making products and services better. It can, however, only go so far before all practical improvements have been carried out. Lateral thinking can generate completely new concepts and ideas and brilliant improvements to existing systems. In the wrong place, however, it can be impractical or unnecessarily disruptive.

SCAMPER

Developed by Bob Eberle, SCAMPER is a checklist tool that helps you to think of changes you can make to an existing marketplace to create a new one—a new product, a new service, or both[51]. You can use these changes either as direct suggestions or as starting points for lateral thinking. This, in turn, can inspire a new vision statement. Table 1 "Creativity through SCAMPER" provides you with the

SCAMPER question steps and examples of new products or services that you might create.

Table 2 Creativity through SCAMPER

Questions:	Examples:
Substitute: What else instead? Who else instead? Other ingredients? Other material? Other time? Other place?	Vegetarian hot dogs
Combine: How about a blend? Combine purposes? Combine materials?	Musical greeting cards
Adapt: What else is like this? What other idea does this suggest? How can I adjust to these circumstances?	Snow tires
Modify: Different order, form, shape? Minify: What to make smaller? Slower? Lighter? What to do with less frequency? Magnify: What to make higher? Longer? Thicker? What to do with greater frequency?	Scented crayons; Bite- sized Snickers bars; Super-sized french fries
Put to other uses: New ways to use as is? Other uses I modified? Other places to use an item or movement?	Towel as fly swatter
Eliminate: What to remove? Omit? Understate?	Cordless telephone
Rearrange: Other layout? Other sequence? Transpose cause and effect? Transpose positive and negative? How about opposites? Reverse: Interchange components? Other pattern? Backward? Upside down?	Vertical stapler; Reversible clothing

As shown in Table 1 "Creativity through SCAMPER", by taking a topic or problem and then using SCAMPER, you can generate possible new products. It may be some combination of these SCAMPER changes that lead to highly innovative solutions. For instance, the entertainment company Cirque du Soliel has modeled its shows on the traditional circus. However, it has adapted aspects of theater and opera, eliminated animals, and reduced the number of rings from three to one. As a result, it offers a highly stylized (and much more expensive!) version of what, nostalgically, we call a circus today. Many of the ideas may be impractical. However, some of these ideas could be good starting points for a new organization or revision of the vision for an existing one.

Nominal Group Technique

The Nominal Group Technique (NGT) is a method of facilitating a group of people to produce a large number of ideas in a relatively short time. This section is reproduced with permission of the University of Wisconsin Extension Program. A circulation version can be found at:

http://www.uwex.edu/ces/pdande/resources/pdf/Tipsheet3.pdf (retrieved October 28, 2008). Additional information on NGT can be gained by reading the linked material.[52]

In addition to using NGT to develop a mission and vision statement, it can be useful:

- To generate numerous creative ideas
- To ensure everyone is heard
- When there is concern that some people may not be vocal
- To build consensus
- When there is controversy or conflict

As shown in "NGT Preparation and Supplies," preparation and supplies are modest. It encourages contributions from everyone by allowing for equal participation among group members. A question is posed to the group. Individually and silently, each participant writes down his or her ideas. In round-robin fashion, each member supplies an idea until all ideas are shared. Generally, 6 to 10 people participate. "Nominal" means that the participants form a group in name only. For most of the session, they do not interact as they would in other group processes.

NGT Preparation and Supplies

Formulate your discussion question. Ensure that the wording prevents misunderstanding and is objective. Supplies needed include:

- Flip chart for each table
- Masking tape
- 3 × 5 cards for each participant

- Work tables
- Felt pens

The group is divided into small work groups, each with a leader. A flip chart and markers are needed at each table. Position the flip chart so that all can see the ideas. The remaining simple procedures are summarized in "NGT Procedure."

NGT Procedure

1. Introduction: Briefly welcome participants, clarify the purpose of the group exercise, and explain the procedure to be followed and how results are to be used.
2. Present question: Orally present the question that is written on the flip chart; clarify as needed.
3. Silent generation of ideas: Each participant silently thinks of and writes down (on 3 × 5 card) as many ideas as possible. Allow 5 to 10 minutes.
4. Record ideas: In turn, each participant reads aloud one idea, and it is recorded on the flip chart for all to see.
5. Continue until all ideas are recorded.
6. Discourage discussion, not even questions for clarification.
7. Encourage "hitchhiking," that is, expanding on another's statement. Ideas do not have to be from the participant's written list.
8. Participants may pass a turn and then add an idea at a subsequent turn.
9. Discourage combining ideas from individuals unless they are exactly the same.
10. Group discussion: After all ideas are recorded, the person who suggested the idea is given the opportunity to explain it further.
11. Duplicates may be combined.
12. Wording may be changed if the originator agrees.
13. Ideas are deleted only by unanimous agreement.
14. Restrict discussion to clarify meaning; the value or merit of ideas is not discussed.

Passion and Vision

Passion as we invoke the term in this chapter, refers to intense, driving, or overmastering feeling or conviction. Passion is also associated with intense emotion compelling action. Passion is relevant to vision in at least two ways: (1) Passion about an idea as inspiration of the vision and vision statement and (2) shared passion among organizational members about the importance of the vision.

Passion as Inspiration

Entrepreneur Curt Rosengren makes this observation about the relationship between passion and entrepreneurship: "Strangely, in spite of its clear importance, very few entrepreneurs or managers consciously incorporate passion into their decisions, ultimately leaving one of their most valuable assets on their path to success largely to chance, even though there is little question that passion can be a part of vision creation[53]." Rosengren comments further that: "Passion is the essence of the entrepreneurial spirit. It is an entrepreneur's fuel, providing the drive and inspiration to create something out of nothing while enduring all the risks, uncertainty, and bumps in the road that that entails."

"Entrepreneurs' lives consist of a nonstop mission to communicate their vision and inspire others to support their efforts. As evangelists, salespeople, fundraisers, and cheerleaders they need to breathe life into their vision while enlisting others in their dream. From creating a vision for the future to selling the idea to investors, from attracting high-quality employees to inspiring them to do what nobody thought possible, that passion is a key ingredient." "Passion also plays a key role in their belief that they can achieve the so-called impossible, bouncing back from failure and ignoring the chorus of No that is inevitably part of the entrepreneurial experience." Robin Wolaner, founder of Parenting magazine and author of *Naked In The Boardroom: A CEO Bares Her Secrets So You Can Transform Your Career*, put it succinctly when she said, "To succeed in starting a business you have to suspend disbelief, because the odds are against you. Logic is going to stop you.' Passion, on the other hand, will help you fly[54]."

Passion About the Vision

Passion doesn't just have benefits for the individual entrepreneur or manager when formulating a vision statement, it can help the whole business thrive. While there is little academic research on the relationship between passion and vision, studies suggest that fostering engagement, a concept related to passion, in employees has a significant effect on the corporate bottom line. Gallup, for instance, has been on the forefront of measuring the effect of what it calls employee engagement. **Employee engagement** is a concept that is generally viewed as managing discretionary effort; that is, when employees have choices, they will act in a way that furthers their organization's interests. An engaged employee is fully involved in, and enthusiastic about, his or her work[55]. The consulting firm BlessingWhite offers this description of engagement and its value (and clear relationship with passion):

"Engaged employees are not just committed. They are not just passionate or proud. They have a line-of-sight on their own future and on the organization's mission and goals. They are 'enthused' and 'in gear' using their talents and discretionary effort to make a difference in their employer's quest for sustainable business success.[56]"

Engaged employees are those who are performing at the top of their abilities and happy about it. According to statistics that Gallup has drawn from 300,000 companies in its database, 75%–80% of employees are either "disengaged" or "actively disengaged[57]." That's an enormous waste of potential. Consider Gallup's estimation of the impact if 100% of an organization's employees were fully engaged:

- Customers would be 70% more loyal.
- Turnover would drop by 70%.
- Profits would jump by 40%.

Job satisfaction studies in the United States routinely show job satisfaction ratings

of 50%–60%. But one recent study by Harris Interactive of nearly 8,000 American workers went a step further[58].

- Only 20% feel very passionate about their jobs.
- Less than 15% agree that they feel strongly energized by their work.
- Only 31% (strongly or moderately) believe that their employer inspires the best in them.

Consciously creating an environment where passion is both encouraged and actively developed can yield an enormous competitive advantage. That environment starts at the top through the development and active communication of mission and vision.

KEY TAKEAWAYS

- You learned about the relationship between creativity and passion and mission and vision. You learned that creativity relates to the power or ability to create and that passion is intense emotion compelling action.
- Creativity is important if the desired mission and vision are desired to be novel and entrepreneurial.
- Passion is important both from the standpoint of adding energy to the mission and vision and to key stakeholders following the mission and vision.

Stakeholders

LEARNING OBJECTIVES

1. Learn about stakeholders and their importance.
2. Understand stakeholder analysis.
3. Be able to map stakeholders and their level of participation.

Stakeholders and Stakeholder Analysis

Stakeholders are individuals or groups who have an interest in an organization's

ability to deliver intended results and maintain the viability of its products and services. We've already stressed the importance of stakeholders to a firm's mission and vision. We've also explained that firms are usually accountable to a broad range of stakeholders, including shareholders, who can make it either more difficult or easier to execute a strategy and realize its mission and vision. This is the main reason managers must consider stakeholders' interests, needs, and preferences.

Considering these factors in the development of a firm's mission and vision is a good place to start, but first, of course, you must identify critical stakeholders, get a handle on their short- and long-term interests, calculate their potential influence on your strategy, and take into consideration how the firms strategy might affect the stakeholders (beneficially or adversely). Table 2 "Stakeholder Categories Template" provides one way to begin thinking about the various stakeholder groups, their interests, importance, and influence. **Influence** reflects a stakeholder's relative power over and within an organization; **importance** indicates the degree to which the organization cannot be considered successful if a stakeholder's needs, expectations, and issues are not addressed.

Table 3 Stakeholder Categories Template[59]

Stakeholder	Categories	Interests	Importance	Influence
Owners				
Managers				
Employees				
Customers				
Environmental				
Social				
Government				
Suppliers				

Competitors				
Other?				

As you can imagine, for instance, one key stakeholder group comprises the CEO and the members of the top-management team. These are key managers, and they might be owners as well. This group is important for at least three reasons:

1. Its influence as either originator or steward of the organization's mission and vision.
2. Its responsibility for formulating a strategy that realizes the mission and vision.
3. Its ultimate role in strategy implementation.

Typically, stakeholder evaluation of both quantitative and qualitative performance outcomes will determine whether management is effective. Quantitative outcomes include stock price, total sales, and net profits, while qualitative outcomes include customer service and employee satisfaction. As you can imagine, different stakeholders may place more emphasis on some outcomes than other stakeholders, who have other priorities.

Stakeholders, Mission, and Vision

Stakeholder analysis refers to the range of techniques or tools used to identify and understand the needs and expectations of major interests inside and outside the organization environment. Managers perform stakeholder analysis to gain a better understanding of the range and variety of groups and individuals who not only have a vested interest in the organization, and ultimately the formulation and implementation of a firm's strategy, but who also have some influence on firm performance. Managers thus develop mission and vision statements, not only to clarify the organization's larger purpose but also to meet or exceed the needs of its key stakeholders.

Stakeholder analysis may also enable managers to identify other parties that

might derail otherwise well-formulated strategies, such as local, state, national, or foreign governmental bodies. Finally, stakeholder analysis enables organizations to better formulate, implement, and monitor their strategies, and this is why stakeholder analysis is a critical factor in the ultimate implementation of a strategy.

Identifying Stakeholders

The first step in stakeholder analysis is identifying major stakeholder groups. As you can imagine, the groups of stakeholders who will, either directly or indirectly, be affected by or have an effect on a firm's strategy and its execution can run the gamut from employees, to customers, to competitors, to the government. Ultimately, we will want to take these stakeholders and plot them on a chart, similar to that shown in the following figure.

Influence of Stakeholder	Importance of Stakeholder			
	Unknown	Little/No Importance	Moderate Importance	Significant Importance
Unknown				
Little/No Influence				
Moderate Influence				
Significant Influence				

Figure 9 Stakeholder Mapping[60]

Let's pause for a moment to consider the important constituencies we will be charting on our stakeholder map. Before we start, however, we need to remind ourselves that stakeholders can be individuals or groups—communities, social or political organizations, and so forth. In addition, we can break groups down demographically, geographically, by level and branch of government, or according

to other relevant criteria. In so doing, we're more likely to identify important groups that we might otherwise overlook.

With these facts in mind, you can see that, externally, a map of stakeholders will include such diverse groups as governmental bodies, community-based organizations, social and political action groups, trade unions and guilds, and even journalists. National and regional governments and international regulatory bodies will probably be key stakeholders for global firms or those whose strategy calls for greater international presence. Internally, key stakeholders include shareholders, business units, employees, and managers.

Steps in Identifying Stakeholders

Identifying all of a firm's stakeholders can be a daunting task. In fact, as we will note again shortly, a list of stakeholders that is too long actually may reduce the effectiveness of this important tool by overwhelming decision makers with too much information. To simplify the process, we suggest that you start by identifying groups that fall into one of four categories: *organizational*, *capital market*, *product market*, and *social*. Let's take a closer look at this step.

Step 1: Determining Influences on Mission, Vision, and Strategy Formulation.

One way to analyze the importance and roles of the individuals who compose a stakeholder group is to identify the people and teams who should be consulted as strategy is developed or who will play some part in its eventual implementation. These are *organizational stakeholders*, and they include both high-level managers and frontline workers. *Capital-market stakeholders* are groups that affect the availability or cost of capital—shareholders, venture capitalists, banks, and other financial intermediaries. *Product-market stakeholders* include parties with whom the firm shares its industry, including suppliers and customers. Social stakeholders consist broadly of external groups and organizations that may be affected by or exercise influence over firm strategy and performance, such as unions, governments, and activist groups. The next two steps are to determine how various stakeholders are affected by the firm's strategic decisions and the degree

of power that various stakeholders wield over the firm's ability to choose a course of action.

Step 2: Determining the Effects of Key Decisions on the Stakeholder.

Step 2 in stakeholder analysis is to determine the nature of the effect of the firm's strategic decisions on the list of relevant stakeholders. Not all stakeholders are affected equally by strategic decisions. Some effects may be rather mild, and any positive or negative effects may be secondary and of minimal impact. At the other end of the spectrum, some stakeholders bear the brunt of firm decisions, good or bad.

In performing step 1, companies often develop overly broad and unwieldy lists of stakeholders. At this stage, it's critical to determine the stakeholders who are most important based on how the firm's strategy affects the stakeholders. You must determine which of the groups still on your list have direct or indirect material claims on firm performance or which are potentially adversely affected. For instance, it is easy to see how shareholders are affected by firm strategies—their wealth either increases or decreases in correspondence with the firm's actions. Other parties have economic interests in the firm as well, such as parties the firm interacts with in the marketplace, including suppliers and customers. The effects on other parties may be much more indirect. For instance, governments have an economic interest in firms doing well—they collect tax revenue from them. However, in cities that are well diversified with many employers, a single firm has minimal economic impact on what the government collects. Alternatively, in other areas, individual firms represent a significant contribution to local employment and tax revenue. In those situations, the effect of firm actions on the government would be much greater.

Step 3: Determining Stakeholders' Power and Influence over Decisions.

The third step of a stakeholder analysis is to determine the degree to which a stakeholder group can exercise power and influence over the decisions the firm

makes. Does the group have direct control over what is decided, veto power over decisions, nuisance influence, or no influence? Recognize that although the degree to which a stakeholder is affected by firm decisions (i.e., step 2) is sometimes highly correlated with their power and influence over the decision, this is often not the case. For instance, in some companies, frontline employees may be directly affected by firm decisions but have no say in what those decisions are. Power can take the form of formal voting power (boards of directors and owners), economic power (suppliers, financial institutions, and unions), or political power (dissident stockholders, political action groups, and governmental bodies). Sometimes the parties that exercise significant power over firm decisions don't register as having a significant stake in the firm (step 2). In recent years, for example, Wal-Mart has encountered significant resistance in some communities by well-organized groups who oppose the entry of the mega-retailer. Wal-Mart executives now have to anticipate whether a vocal and politically powerful community group will oppose its new stores or aim to reduce their size, which decreases Wal-Mart's per store profitability. Indeed, in many markets, such groups have been effective at blocking new stores, reducing their size, or changing building specifications.

Once you've determined who has a stake in the outcomes of the firm's decisions as well as who has power over these decisions, you'll have a basis on which to allocate prominence in the strategy-formulation and strategy-implementation processes. The framework in the figure will also help you categorize stakeholders according to their influence in determining strategy versus their importance to strategy execution. For one thing, this distinction may help you identify major omissions in strategy formulation and implementation.

Having identified stakeholder groups and differentiated them by how they are affected by firm decisions and the power they have to influence decisions, you'll want to ask yourself some additional questions:

- Have I identified any vulnerable points in either the strategy or its potential

implementation?

- Which groups are mobilized and active in promoting their interests?
- Have I identified supporters and opponents of the strategy?
- Which groups will benefit from successful execution of the strategy and which may be adversely affected?
- Where are various groups located? Who belongs to them? Who represents them?

The stakeholder-analysis framework summarized in the figure is a good starting point. Ultimately, because mission and vision are necessarily long term in orientation, identifying important stakeholder groups will help you to understand which constituencies stand to gain or to lose the most if they're realized.

Two Challenges

Two of the challenges of performing stakeholder analysis are determining how stakeholders are affected by a firm's decisions and how much influence they have over the implementation of the decisions that are made. Many people have a tendency to fall into the trap of assessing all stakeholders as being important on both dimensions. In reality, not all stakeholders are affected in the same way and not all stakeholders have the same level of influence in determining what a firm does. Moreover, when stakeholder analysis is executed well, the resulting strategy has a better chance of succeeding, simply because the entities you might rely on in the implementation phase were already involved in the strategy starting with the formulation phase. Thus, you now have a good idea of how to engage various stakeholders in all the stages of the P-O-L-C framework.

Crafting Mission and Vision Statements

LEARNING OBJECTIVES

1. Learn about the basics of the mission and vision development process.
2. Understand the content of good mission and vision statements.

Communicating and Monitoring Mission and Vision

At this point, you have an understanding of what a mission and vision statement is and how creativity, passion, and stakeholder interests might be accounted for. The actual step-by-step process of developing a mission and vision might start with the mission and vision statements, but you should think of this process more broadly in terms of multiple steps: (1) the process, (2) the content of the mission and vision statements, (3) communicating mission and vision to all relevant stakeholders, and (4) monitoring. As shown in "Process, Content, Application, and Monitoring in Mission and Vision Development," *Information Week* contributor Sourabh Hajela breaks out one way you might manage your mission/vision development checklist. Let's dive in to the development process first.

Mission and vision statements are statements of an organization's purpose and potential; what you want the organization to become. Both statements should be meaningful to you and your organization. It should be shared with all of the employees in the organization to create a unified direction for everyone to move in.

Process, Content, Application, and Monitoring in Mission and Vision Development[61]

- Let the business drive the mission and vision.

- Involve all stakeholders in its development; otherwise, they won't consider it theirs.

- Assign responsibility so that it's clear how each person, including each stakeholder, can contribute.

- Seek expert facilitation to reach a vision supported by all.

- Revise and reiterate; you'll likely go through multiple iterations before you're satisfied.

- Start from where you are to get to where you want to go.

- Build in the values of the organization: Every organization has a soul. Tap into yours, and adjust as needed. Mission and vision built on your values will not just hold promise but also deliver on it.

- Build on the core competencies of the organization: A mission and vision are useless if they can't be put into operation. This requires recognition of your organization's strengths and weaknesses.

- Factor in your style: A mission and vision must reflect the leader's style. You can't sustain action that goes against it.

- Make it visual: A picture is worth a thousand words.

- Make it simple to understand: Complex language and disconnected statements have little impact—people can't implement what they don't understand.

- Make it achievable: A mission and vision are an organization's dreams for the future. Unachievable goals discourage people.

- Phase it in: Reach for the sky—in stages.

- Make it actionable: If it's too abstract, no one knows what to do next.
- Communicate often: Internal communications are the key to success. People need to see the mission and vision, identify with them, and know that leadership is serious about it.
- Create messages that relate to the audience: To adopt a mission and vision, people must see how they can achieve it, and what's in it for them.
- Create messages that inspire action: It's not what you say, but how you say it.
- Use it: Beyond printing it, posting it, and preaching it, you also need to practice what is laid out in the mission and vision…"walk the talk"
- Live it: Management must lead by example.
- Be real: It's better to adjust the mission statement as needed than to not live up to the standards it sets.
- Identify key milestones: While traveling to your destination, acknowledge the milestones along the way.
- Monitor your progress: A strategic audit, combined with key metrics, can be used to measure progress against goals and objectives.
- Use external audit team: An external team brings objectivity, plus a fresh perspective.

Mission and Vision-Development Process

Mission and vision development are analogous to the "P" (planning) in the P-O-L-C framework. Start with the people. To the greatest extent possible, let those people responsible for executing the mission and vision drive their development. Sometimes this means soliciting their input and guiding them through the development of the actual statements, but ideally, it means teaching them how to craft those statements themselves. Involve as many key stakeholders as possible in its development; otherwise, they won't consider it theirs. Assign responsibility so that it's clear how each person, including each stakeholder, can contribute.

Content

The content of the mission and vision statements are analogous to the O (organizing) part of the P-O-L-C framework. Begin by describing the best possible business future for your company, using a target of 5 to 10 years in the future. Your written goals should be dreams, but they should be achievable dreams. Jim Collins (author of *Good to Great*) suggests that the vision be very bold, or what he likes to call a **BHAG**—a big, hairy, audacious goal—like the United States' goal in the 1960s to go to the moon by the end of the decade, or Martin Luther King's vision for a nonracist America.

Recognizing that the vision statement is derived from aspects of the mission statement, it is helpful to start there. Richard O' Hallaron and his son, David R. O' Hallaron, in *The Mission Primer: Four Steps to an Effective Mission Statement*, suggest that you consider a range of objectives, both financial and nonfinancial[62]. Their approach is based on Gast's Laws, a set of principles developed in the 1940s and 1950s by the late business professor Walter Gast.

Among other ideas, Gast's Laws hold that businesses must be dedicated to more than making money if they are to succeed. Specifically, the O'Hallarons found that the best mission statements have given attention to the following six areas:

1. What "want-satisfying" service or commodity do we produce and work constantly to improve?
2. How do we increase the wealth or quality of life or society?
3. How do we provide opportunities for the productive employment of people?
4. How are we creating a high-quality and meaningful work experience for employees?
5. How do we live up to the obligation to provide fair and just wages?
6. How do we fulfill the obligation to provide a fair and just return on capital?

When writing your statements, use the present tense, speaking as if your business has already become what you are describing. Use descriptive statements describing what the business looks like, feels like, using words that describe all of

a person's senses. Your words will be a clear written motivation for where your business organization is headed. Mission statements, because they cover more ground, tend to be longer than vision statements, but you should aim to write no more than a page. Your words can be as long as you would like them to be, but a shorter vision statement may be easier to remember.

Communications

The communications step of the mission and vision statements development process is analogous to the "L" (leading) part of the P-O-L-C framework. Communicate often: Internal communications are the key to success. People need to see the vision, identify with it, and know that leadership is serious about it. Managers must evaluate both the need and the necessary tactics for persuasively communicating a strategy in four different directions: *upward*, *downward*, *across*, and *outward*[63].

Communicating Upward

Increasingly, firms rely on bottom-up innovation processes that encourage and empower middle-level and division managers to take ownership of mission and vision and propose new strategies to achieve them. Communicating upward means that someone or some group has championed the vision internally and has succeeded in convincing top management of its merits and feasibility.

Communicating Downward

Communicating downward means enlisting the support of the people who'll be needed to implement the mission and vision. Too often, managers undertake this task only after a strategy has been set in stone, thereby running the risk of undermining both the strategy and any culture of trust and cooperation that may have existed previously. Starting on the communication process early is the best way to identify and surmount obstacles, and it usually ensures that a management team is working with a common purpose and intensity that will be important when it's time to implement the strategy.

Communicating Across and Outward

The need to communicate across and outward reflects the fact that realization of a mission and vision will probably require cooperation from other units of the firm (*across*) and from key external stakeholders, such as material and capital providers, complementors, and customers (*outward*). Internally, for example, the strategy may call for raw materials or services to be provided by another subsidiary; perhaps it depends on sales leads from other units. The software company Emageon couldn't get hospitals to adopt the leading-edge visualization software that was produced and sold by one subsidiary until its hardware division started cross-selling the software as well. This internal coordination required a champion from the software side to convince managers on the hardware side of the need and benefits of working together.

Application

It is the successful execution of this step—actually using the mission and vision statements—that eludes most organizations. "Yes, it is inconvenient and expensive to move beyond the easy path" and make decisions that support the mission statement, says Lila Booth, a Philadelphia-area consultant who is on the faculty of the Wharton Small Business Development Center. But ditching mission for expediency "is short-term thinking," she adds, "which can be costly in the end, costly enough to put a company out of business.[64]" That is not to say that a mission statement is written in stone. Booth cites her own consulting business. It began well before merger mania but has evolved with the times and now is dedicated in significant part to helping merged companies create common cultures. "Today, our original mission statement would be very limiting," she says. Even the most enthusiastic proponents acknowledge that mission statements are often viewed cynically by organizations and their constituents. That is usually due to large and obvious gaps between a company's words and deeds. "Are there companies that have managers who do the opposite of what their missions statements dictate? Of course," says Geoffrey Abrahams, author of *The Mission Statement Book*. "Mission statements are tools, and tools can be used or abused or ignored. Management must lead by example. It's the only way employees can

live up to the company's mission statement.[65]" Ultimately, if you are not committed to using the mission statement then you are best advised not to create one.

Monitoring

The monitoring step of the mission and vision statements development process is analogous to the "C" (controlling) part of the P-O-L-C framework. Identify key milestones that are implied or explicit in the mission and vision. Since mission and vision act like a compass for a long trip to a new land, as *Information Week*'s Hajela suggests, "while traveling to your destination, acknowledge the milestones along the way. With these milestones you can monitor your progress: A strategic audit, combined with key metrics, can be used to measure progress against goals and objectives. To keep the process moving, try using an external audit team. One benefit is that an external team brings objectivity, plus a fresh perspective.[66]" It also helps motivate your team to stay on track.

> ## KEY TAKEAWAYS
> - This section described some of the basic inputs into crafting mission and vision statements.
> - It explored how mission and vision involved initiation, determination of content, communication, application, and then monitoring to be sure if and how the mission and vision were being followed and realized.
> - In many ways, you learned how the development of mission and vision mirrors the P-O-L-C framework itself—from planning to control (monitoring).

Chapter 3 Review Questions

Multiple Choice:

1. This communicates the organizations reason for being.
   a. goals and objectives
   b. mission statement
   c. strategy
   d. vision statement

2. This framework roll involves ensuring that performance does not deviate from standards.
   a. planning
   b. organizing
   c. leading
   d. controlling

3. Of the four creativity types from Figure 4, this goal is novelty through external flexibility.
   a. imagination
   b. improvement
   c. incubation
   d. investment

4. When identifying steps in stakeholders, you must determine which of the groups still on your list have direct or indirect material claims on firm performance.
   a. determining influences on mission, vision, and strategy formulation
   b. determining stakeholders power and influence over decisions
   c. determining the effects of key decisions on the stakeholder

Short Answer:

- Describe the difference between a mission and vision statement.

- Why are creativity and passion important?

- Describe the three steps in identifying stakeholders.

Chapter 4 Strategizing

Reading this chapter will help you do the following:

1. See how strategy fits in the planning-organizing-leading-controlling (P-O-L-C) framework.
2. Better understand how strategies emerge.
3. Understand strategy as trade-offs, discipline, and focus.
4. Conduct internal analysis to develop strategy.
5. Conduct external analysis to develop strategy.
6. Formulate organizational and personal strategy with the strategy diamond.

Strategic management, strategizing for short, is essentially about choice—in terms of what the organization will do and won't do to achieve specific goals and objectives, where such goals and objectives lead to the realization of a stated mission and vision. Strategy is a central part of the planning function in P-O-L-C.

Strategy is also about making choices that provide an organization with some measure of competitive advantage or even a sustainable competitive advantage. For the most part, this chapter emphasizes strategy formulation (answers to the "What should our strategy be?" question) as opposed to strategy implementation (answers to questions about "How do we execute a chosen strategy?"). The central position of strategy is summarized in the following figure. In this chapter, you will learn about strategic
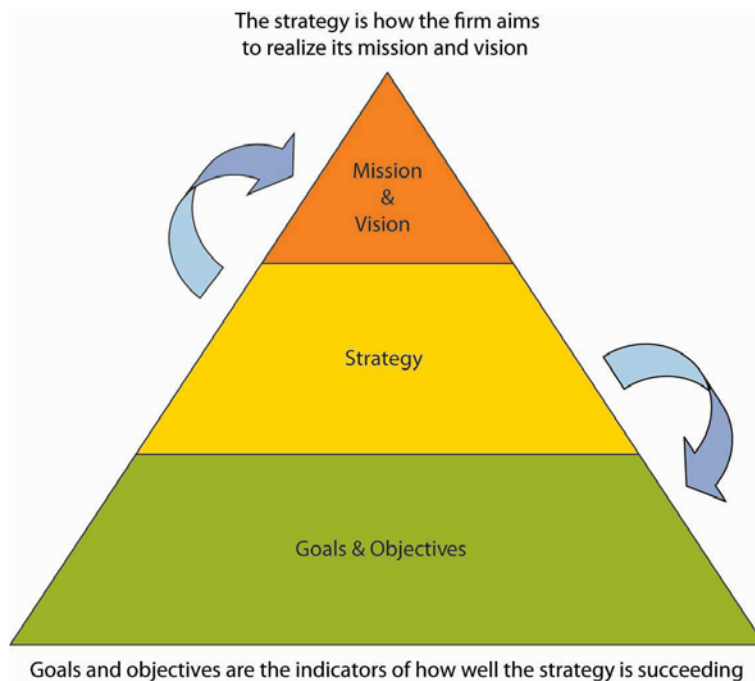
Figure 10 Where Strategy Fits in "Planning"

management and how it fits in the P-O-L-C framework. You will also learn some of the key internal and external analyses that support the development of good strategies. Finally, you will see how the concept of strategy can be applied to you personally, in addition to professionally.

Planning	Organizing	Leading	Controlling
1. Vision & Mission 2. Strategizing 3. Goals & Objectives	1. Organization Design 2. Culture 3. Social Networks	1. Leadership 2. Decision Making 3. Communications 4. Groups/Teams 5. Motivation	1. Systems/Processes 2. Strategic Human Resources

Figure 11 The P-O-L-C Framework

Strategic Management in the P-O-L-C Framework

Learning Objectives:
1. Be able to define strategic management.
2. Understand how strategic management fits in the P-O-L-C framework.
3. Broadly identify the inputs for strategy formulation.

What Is Strategic Management?
As you already know, the P-O-L-C framework starts with "planning." You might also know that planning is related to, but not synonymous with, strategic management. Strategic management reflects what a firm is doing to achieve its mission and vision, as seen by its achievement of specific goals and objectives.

A more formal definition tells us that the strategic management process "is the process by which a firm manages the formulation and implementation of its strategy.[67]" The strategic management process is "the coordinated means by which an organization achieves its goals and objectives.[68]" Others have described

strategy as the pattern of resource allocation choices and organizational arrangements that result from managerial decision making.[69] Planning and strategy formulation sometimes called *business planning*, or *strategic planning*, have much in common, since formulation helps determine what the firm should do. Strategy implementation tells managers how they should go about putting the desired strategy into action. The concept of strategy is relevant to all types of organizations, from large, public companies like GE, to religious organizations, to political parties.

Strategic Management in the P-O-L-C Framework

If vision and mission are the heart and soul of planning (in the P-O-L-C framework), then strategy, particularly strategy formulation, would be the brain. The following figure summarizes where strategy formulation (*strategizing*) and implementation fit in the planning and other components of P-O-L-C. We will focus primarily on the strategy formulation aspects of strategic management because implementation is essentially organizing, leading, and controlling P-O-L-C components.

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Strategy Formulation   **Strategy Implementation**

Figure 12 Strategizing in P-O-L-C

You see that planning starts with vision and mission and concludes with setting goals and objectives. In-between is the critical role played by strategy. Specifically, a strategy captures and communicates how vision and mission will be achieved and which goals and objectives show that the organization is on the right path to achieving them.

At this point, even in terms of strategy formulation, there are two aspects of

strategizing that you should recognize. The first, corporate strategy answers strategy questions related to "What business or businesses should we be in?" and "How does our business X help us compete in business Y, and vice versa?" In many ways, corporate strategy considers an organization to be a portfolio of businesses, resources, capabilities, or activities. You are probably familiar with McDonald's, for instance, and their ubiquitous golden arches fast-food outlets. However, you may be less likely to know that McDonald's owned the slightly upscale burrito vendor Chipotle for several years as well[70]. The McDonald's corporate strategy helped its managers evaluate and answer questions about whether it made sense for McDonald's set of businesses to include different restaurants such as McDonald's and Chipotle. While other food-service companies have multiple outlets—YUM! Brands, for example, owns A&W, Taco Bell, Pizza Hut, Long John Silver's, and Kentucky Fried Chicken—McDonald's determined that one brand (McDonald's) was a better strategy for it in the future, and sold off Chipotle in 2006. The following figure provides a graphic guide to this kind of planning.

Figure 13 Corporate and Business Strategy

The logic behind corporate strategy is one of synergy and diversification. That is, synergies arise when each of YUM! Brands food outlets does better because they have common ownership and can share valuable inputs into their businesses. Specifically, synergy exists when the interaction of two or more activities (such as those in a business) create a combined effect greater than the sum of their individual effects. The idea is that the combination of certain businesses is stronger than they would be individually because they either do things more cheaply or of higher quality as a result of their coordination under a common owner.

Diversification in contrast, is where an organization participates in multiple businesses that are in some way distinct from each other, as Taco Bell is from Pizza Hut, for instance. Just as with a portfolio of stock, the purpose of diversification is to spread out risk and opportunities over a larger set of businesses. Some may be high growth, some slow growth or declining; some may perform worse during recessions, while others perform better. Sometimes the businesses can be very different, such as when fashion sunglass maker Maui Jim diversified into property and casualty insurance through its merger with RLI Corporation[71]. Perhaps more than a coincidence, RLI was founded some 60 years earlier as Replacement Lens International (later changed to its abbreviation, RLI, in line with its broader insurance products offerings), with the primary business of providing insurance for replacement contact lenses. There are three major diversification strategies: (1) *concentric diversification*, where the new business produces products that are technically similar to the company's current product but that appeal to a new consumer group; (2) *horizontal diversification*, where the new business produces products that are totally unrelated to the company's current product but that appeal to the same consumer group; and (3) *conglomerate diversification*, where the new business produces products that are totally unrelated to the company's current product and that appeal to an entirely new consumer group.

Whereas corporate strategy looks at an organization as a portfolio of things,

business strategy focuses on how a given business needs to compete to be effective. Again, all organizations need strategies to survive and thrive. A neighborhood church, for instance, probably wants to serve existing members, build new membership, and, at the same time, raise surplus monies to help it with outreach activities. Its strategy would answer questions surrounding the accomplishment of these key objectives. In a for-profit company such as McDonald's, its business strategy would help it keep existing customers, grow its business by moving into new markets and taking customers from competitors like Taco Bell and Burger King, and do all this at a profit level demanded by the stock market.

Strategic Inputs

So what are the inputs into strategizing? At the most basic level, you will need to gather information and conduct analysis about the internal characteristics of the organization and the external market conditions. This means an internal appraisal and an external appraisal. On the internal side, you will want to gain a sense of the

Figure 14 SWOT Analysis

organization's strengths and weaknesses; on the external side, you will want to develop some sense of the organization's opportunities and threats. Together, these four inputs into strategizing are often called SWOT analysis which stands for strengths, weaknesses, opportunities, and threats (see the SWOT analysis figure). It does not matter if you start this appraisal process internally or externally, but you will quickly see that the two need to mesh eventually. At the

very least, the strategy should leverage strengths to take advantage of opportunities and mitigate threats, while the downside consequences of weaknesses are minimized or managed.

SWOT was developed by Ken Andrews in the early 1970s[72]. An assessment of strengths and weaknesses occurs as a part of organizational analysis; that is, it is an audit of the company's internal workings, which are relatively easier to control than outside factors. Conversely, examining opportunities and threats is a part of environmental analysis—the company must look outside of the organization to determine opportunities and threats, over which it has lesser control.

Andrews's original conception of the strategy model that preceded the SWOT asked four basic questions about a company and its environment: (1) What can we do? (2) What do we want to do? (3) What might we do? and (4) What do others expect us to do?

Strengths and Weaknesses

A good starting point for strategizing is an assessment of what an organization does well and what it does less well. In general good strategies take advantage of *strengths* and minimize the disadvantages posed by any *weaknesses*. Michael Jordan, for instance, is an excellent all-around athlete; he excels in baseball and golf, but his athletic skills show best in basketball. As with Jordan, when you can identify certain strengths that set an organization well apart from actual and potential competitors, that strength is considered a source of competitive advantage. The hardest thing for an organization to do is to develop its competitive advantage into a sustainable competitive advantage where the organization's strengths cannot be easily duplicated or imitated by other firms, nor made redundant or less valuable by changes in the external environment.

Opportunities and Threats

On the basis of what you just learned about competitive advantage and sustainable competitive advantage, you can see why some understanding of the external environment is a critical input into strategy. *Opportunities* assess the

external attractive factors that represent the reason for a business to exist and prosper. These are external to the business. What opportunities exist in its market, or in the environment, from which managers might hope the organization will benefit? *Threats* include factors beyond your control that could place the strategy, or the business, at risk. These are also external—managers typically have no control over them, but may benefit by having contingency plans to address them if they should occur.

SWOT Analysis of Flat World Knowledge

Flat World Knowledge is a new college textbook company (and the publisher of this POM text!) that operates with the tagline vision of "*Free textbooks. Online. Anytime. Anywhere. Anyone.*"

Strengths

1. Great management team.
2. Great college business textbooks.
3. Experienced author pool.
4. Proprietary technology.

Weaknesses

1. Limited number of books.
2. New technology.
3. Relatively small firm size.

Opportunities

1. External pressure to lower higher education costs, including textbook prices.
2. Internet savvy students and professors.
3. Professors and students largely displeased with current textbook model.
4. Technology allows textbook customization.

Threats

1. Strong competitors.
2. Competitors are few, very large, and global.
3. Substitute technologies exist.

In a nutshell, SWOT analysis helps you identify strategic alternatives that address the following questions:

1. Strengths and Opportunities (SO)—How can you use your strengths to take advantage of the opportunities?
2. Strengths and Threats (ST)—How can you take advantage of your strengths to avoid real and potential threats?
3. Weaknesses and Opportunities (WO)—How can you use your opportunities to overcome the weaknesses you are experiencing?
4. Weaknesses and Threats (WT)—How can you minimize your weaknesses and avoid threats?

Before wrapping up this section, let's look at a few of the external and internal analysis tools that might help you conduct a SWOT analysis. These tools are covered in greater detail toward the end of the chapter.

Internal Analysis Tools

Internal analysis tools help you identify an organization's strengths and weaknesses. The two tools that we identify here, and develop later in the chapter, are the *value chain* and *VRIO* tools. The value chain asks you, in effect, to take the organization apart and identify the important constituent parts. Sometimes these parts take the form of functions, like marketing or manufacturing. For instance, Disney is really good at developing and making money from its branded products, such as Cinderella or Pirates of the Caribbean. This is a marketing function (it is also a design function, which is another Disney strength).

Value chain functions are also called *capabilities*. This is where VRIO comes in. VRIO stands for valuable, rare, inimitable, and organization—basically, the VRIO framework suggests that a capability, or a *resource*, such as a patent or great

location, is likely to yield a competitive advantage to an organization when it can be shown that it is valuable, rare, difficult to imitate, and supported by the organization (and, yes, this is the same *organization* that you find in P-O-L-C). Essentially, where the value chain might suggest internal areas of strength, VRIO helps you understand whether those strengths will give it a competitive advantage. Going back to our Disney example, for instance, strong marketing and design capabilities are valuable, rare, and very difficult to imitate, and Disney is organized to take full advantage of them.

External Analysis Tools

While there are probably hundreds of different ways for you to study an organizations' external environment, the two primary tools are *PESTEL* and *industry analysis*. PESTEL, as you probably guessed, is simply an acronym. It stands for political, economic, sociocultural, technological, environmental, and legal environments. Simply, the PESTEL framework directs you to collect information about, and analyze, each environmental dimension to identify the broad range of threats and opportunities facing the organization. Industry analysis, in contrast, asks you to map out the different relationships that the organization might have with suppliers, customers, and competitors. Whereas PESTEL provides you with a good sense of the broader macro- environment, industry analysis should tell you about the organization's competitive environment and the key industry-level factors that seem to influence performance.

KEY TAKEAWAYS

- Strategy formulation is an essential component of planning; it forms the bridge that enables the organization to progress from vision and mission to goals and objectives.
- In terms of the P-O-L-C framework, strategy formulation is the P (planning) and strategy implementation is realized by O-L-C.
- Corporate strategy helps to answer questions about which businesses to compete in, while business strategy helps to answer questions about how to compete.
- The best strategies are based on a thorough SWOT analysis—that is, a strategy that capitalizes on an organization's strengths, weaknesses, opportunities, and threats.

How Do Strategies Emerge?

Learning Objectives

1. Understand the difference between intended and realized strategy.
2. Understand how strategy is made.
3. Understand the need for a balance between strategic design and emergence.

How do the strategies we see in organizations come into being? In this section, you will learn about *intended* and *realized* strategies. The section concludes with discussion of how strategies are made.

Intended and Realized Strategies

"The best-laid plans of mice and men often go awry." – Robert Burns, "To a Mouse," 1785

This quote from English poet Robert Burns is especially applicable to strategy. While we have been discussing strategy and strategizing as if they were the

outcome of a rational, predictable, analytical process, your own experience should tell you that a fine plan does not guarantee a fine outcome. Many things can happen between the development of the plan and its realization, including (but not limited to): (1) the plan is poorly constructed, (2) competitors undermine the advantages envisioned by the plan, or (3) the plan was good but poorly executed. You can probably imagine a number of other factors that might undermine a strategic plan and the results that follow.

How organizations make strategy has emerged as an area of intense debate within the strategy field. Henry Mintzberg and his colleagues at McGill University distinguish intended, deliberate, realized, and emergent strategies[73]. These four different aspects of strategy are summarized in the following figure. Intended strategy is strategy as conceived by the top management team. Even here, rationality is limited and the intended strategy is the result of a process of negotiation, bargaining, and compromise, involving many individuals and groups within the organization. However, realized strategy—the actual strategy that is implemented—is only partly related to that which was intended (Mintzberg suggests only 10%–30% of intended strategy is realized).

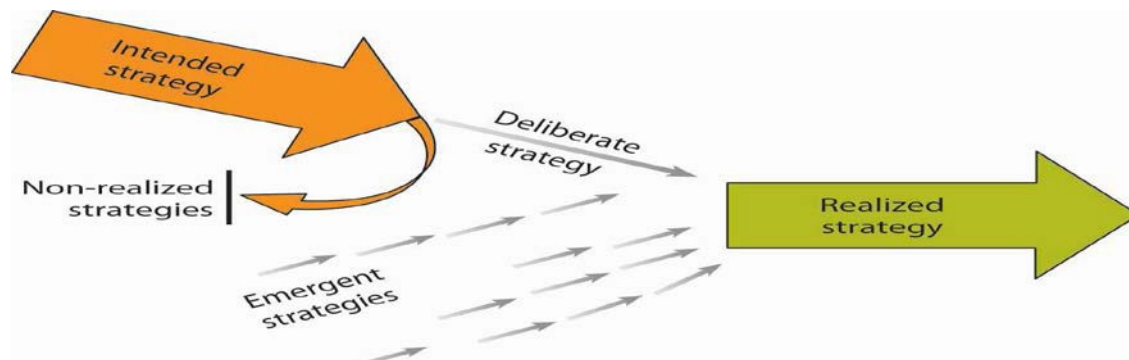*Figure 15 Intended, Deliberate, Realized, and Emergent Strategies*

The primary determinant of realized strategy is what Mintzberg terms emergent strategy—the decisions that emerge from the complex processes in which individual managers interpret the intended strategy and adapt to changing external circumstances[74].

Thus, the realized strategy is a consequence of deliberate and emerging factors.

Analysis of Honda's successful entry into the U.S. motorcycle market has provided a battleground for the debate between those who view strategy making as primarily a rational, analytical process of deliberate planning (the *design school*) and those that envisage strategy as emerging from a complex process of organizational decision making (the *emergence* or *learning school*). The two views of Honda are captured in two Harvard cases: *Honda [A]*. (1989). Boston: Harvard Business School, Case 384049, and *Honda [B]*. (1989). Boston: Harvard Business School, Case 384050.

Although the debate between the two schools continues, we hope that it is apparent to you that the central issue is not "Which school is right?" but "How can the two views complement one another to give us a richer understanding of strategy making?" Let us explore these complementarities in relation to the factual question of how strategies are made and the normative question of how strategies should be made. For further debate of the Honda case[75].

The Making of Strategy, How Is Strategy Made?

Robert Grant, author of *Contemporary Strategy Analysis*, shares his view of how strategy is made as follows[76]. For most organizations, strategy making combines design and emergence. The deliberate design of strategy (through formal processes such as board meetings and strategic planning) has been characterized as a primarily top-down process. Emergence has been viewed as the result of multiple decisions at many levels, particularly within middle management, and has been viewed as a bottom-up process. These processes may interact in interesting ways. At Intel, the key historic decision to abandon memory chips and concentrate on microprocessors was the result of a host of decentralized decisions taken at divisional and plant level that were subsequently acknowledged by top management and promulgated   as strategy[77].

In practice, both design and emergence occur at all levels of the organization. The strategic planning systems of large companies involve top management passing directives and guidelines down the organization and the businesses passing their

draft plans up to corporate. Similarly, emergence occurs throughout the organization—opportunism by CEOs is probably the single most important reason why realized strategies deviate from intended strategies. What we can say for sure is that the role of emergence relative to design increases as the business environment becomes increasingly volatile and unpredictable.

Organizations that inhabit relatively stable environments—the Roman Catholic Church and national postal services—can plan their strategies in some detail. Organizations whose environments cannot be forecast with any degree of certainty—a gang of car thieves or a construction company located in the Gaza Strip—can establish only a few strategic principles and guidelines; the rest must emerge as circumstances unfold.

What's the Best Way to Make Strategy?

Mintzberg's advocacy of strategy making as an iterative process involving experimentation and feedback is not necessarily an argument against the rational, systematic design of strategy. The critical issues are, first, determining the balance of design and emergence and, second, how to guide the process of emergence. The strategic planning systems of most companies involve a combination of design and emergence. Thus, headquarters sets guidelines in the form of vision and mission statements, business principles, performance targets, and capital expenditure budgets. However, within the strategic plans that are decided, divisional and business unit managers have considerable freedom to adjust, adapt, and experiment.

Strategy as Trade-Offs, Discipline, and Focus

Learning Objectives

1. Understand the nature of strategic focus.
2. Strategy as trade-offs (Porter).
3. Strategy as discipline (Treacy and Wiersema).

This section helps you understand that a strategy provides a company with focus. Strategy is ultimately about choice—what the organization does and does not do. As we've seen, vision and mission provide a good sense of direction for the organization, but they are not meant to serve as, or take the place of, the actual strategy. Strategy is about choices, and that eventually means making trade-offs such that the strategy and the firm are distinctive in the eyes of stakeholders. In this section, you will learn about strategic focus—that is, how trade-offs are reconciled—as well as two frameworks for thinking about what such focus might entail.

What Is Strategic Focus?

While there are different schools of thought about how strategy comes about, researchers generally agree that strategic focus is a common characteristic across

successful organizations. Strategic focus is seen when an organization is very clear about its mission and vision and has a coherent, well-articulated strategy for achieving those. When a once high-flying firm encounters performance problems, it is not uncommon to hear business analysts say that the firm's managers have lost focus on the customers or markets where they were once highly successful. For instance, Dell Computer's strategy is highly focused around the efficient sale and manufacture of computers and computer peripheral devices. However, during the mid-2000s, Dell started branching out into other products such as digital cameras, DVD players, and flat-screen televisions. As a result, it lost focus on its core sales and manufacturing business, and its performance flagged. As recently as mid-2008, however, Dell has realized a tremendous turnaround: "We are executing on all points of our strategy to drive growth in every product category and in every part of the world," said a press release from Michael Dell, chairman and CEO. "These results are early signs of our progress against our five strategic priorities. Through a continued focus, we expect to continue growing faster than the industry and increase our revenue, profitability and cash flow for greater shareholder value[78]." Dell provides an excellent example of what is meant by strategic focus. This spirit of focus is echoed in the following two parts of this section where we introduce you to the complementary notions of *strategy as trade-offs* and *strategy as discipline*.

Strategy as Trade-Offs

Three of the most widely read books on competitive analysis in the 1980s were:

1. Michael Porter's Competitive Strategy, Competitive Advantage, and Competitive Advantage of Nations. Porter, M. (1985).
2. Competitive advantage: Creating and sustaining superior performance. New York: Free Press; Porter, M. (1989).
3. Competitive advantage of nations. New York: Free Press. Porter, M. (1980).

In his various books, Porter developed three generic strategies that, he argues, can be used singly or in combination to create a defendable position and to

outperform competitors, whether they are within an industry or across nations. The strategies are (1) overall cost leadership, (2) differentiation, and (3) focus on a particular market niche.

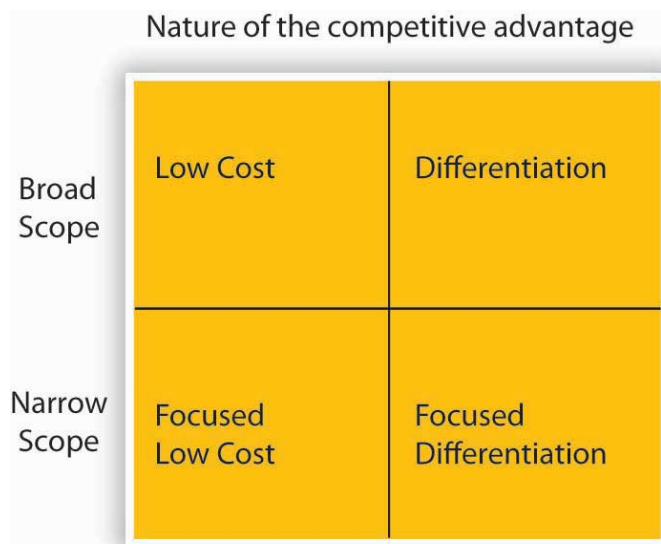## Cost Leadership, Differentiation, and Scope

These strategies are termed *generic* because they can be applied to any size or form of business. We refer to them as trade-off strategies because Porter argues that a firm must choose to embrace one strategy or risk not having a strategy at all. Overall lower cost or cost leadership refers to the strategy where a firm's competitive advantage is based on the bet that it can develop, manufacture, and distribute products more efficiently than competitors. Differentiation refers to the strategy where competitive advantage is based on superior products or service. Superiority arises from factors other than low cost, such as customer service, product quality, or unique style. To put these strategies into context, you might think about Wal-Mart as pursuing a cost-leadership strategy and Harley Davidson as pursuing a differentiation strategy.

Porter suggests that another factor affecting a company's competitive position is its competitive scope. Competitive scope defines the breadth of a company's target market. A company can have a broad (mass market) competitive scope or a narrow (niche market) competitive scope. A firm following the focus strategy concentrates on meeting the specialized needs of its customers. Products and services can be designed to meet the needs of buyers. One approach to focusing is to service either industrial buyers or consumers but not both. Martin- Brower, the third-largest food distributor in the United States, serves only the eight leading fast-food chains. It is the world's largest distributor of products to the world's largest restaurant company—McDonald's. With its limited customer list, Martin-Brower need only stock a limited product line; its ordering procedures are adjusted to match those of its customers; and its warehouses are located so as to be convenient to customers.

Firms using a narrow focus strategy can also tailor advertising and promotional

efforts to a particular market niche. Many automobile dealers advertise that they are the largest volume dealer for a specific geographic area. Other car dealers advertise that they have the highest customer satisfaction scores within their defined market or the most awards for their service department.

Another differentiation strategy is to design products specifically for a customer. Such customization may range from individually designing a product for a single customer to offering a menu from which customers can select options for the finished product. Tailor-made clothing and custom-built houses include the customer in all aspects of production, from product design to final acceptance, and involve customer input in all key decisions. However, providing such individualized attention to customers may not be feasible for firms with an industry-wide orientation. At the other end of the customization scale, customers buying a new car, even in the budget price category, can often choose not only the exterior and interior colors but also accessories such as CD players, rooftop racks, and upgraded tires.

Figure 16 Porter's Generic Strategies

By positioning itself in either broad scope or narrow scope and a low-cost strategy or differentiation strategy, an organization will fall into one of the following generic competitive strategies: cost leadership, cost focus, differentiation, and focused differentiation.

Cost Leadership/Low Cost

Cost leadership is a low-cost, broad-based market strategy. Firms pursuing this type of strategy must be particularly efficient in engineering tasks, production operations, and physical distribution. Because these firms focus on a large market,

they must also be able to minimize costs in marketing and research and development (R&D). A low-cost leader can gain significant market share enabling it to procure a more powerful position relative to both suppliers and competitors. This strategy is particularly effective for organizations in industries where there is limited possibility of product differentiation and where buyers are very price sensitive.

Overall cost leadership is not without potential problems. Two or more firms competing for cost leadership may engage in price wars that drive profits to very low levels. Ideally, a firm using a cost-leader strategy will develop an advantage that others cannot easily copy. Cost leaders also must maintain their investment in state-of-the-art equipment or face the possible entry of more cost-effective competitors. Major changes in technology may drastically change production processes so that previous investments in production technology are no longer advantageous. Finally, firms may become so concerned with maintaining low costs that they overlook needed changes in production or marketing.

The cost-leadership strategy may be more difficult in a dynamic environment because some of the expenses that firms may seek to minimize are research and development costs or marketing research costs—expenses the firm may need to incur to remain competitive.

Focused Low-Cost

A cost-focus strategy is a low-cost, narrowly focused market strategy. Firms employing this strategy may focus on a particular buyer segment or a particular geographic segment and must locate a niche market that wants or needs an efficient product and is willing to forgo extras to pay a lower price for the product. A company's costs can be reduced by providing little or no service, providing a low-cost method of distribution, or producing a no-frills product.

Differentiation

A differentiation strategy involves marketing a unique product to a broad-based market. Because this type of strategy involves a unique product, price is not the

significant factor. In fact, consumers may be willing to pay a high price for a product that they perceive as different. The product difference may be based on product design, method of distribution, or any aspect of the product (other than price) that is significant to a broad group of consumers. A company choosing this strategy must develop and maintain a product perceived as different enough from the competitors' products to warrant the asking price.

Several studies have shown that a differentiation strategy is more likely to generate higher profits than a cost-leadership strategy, because differentiation creates stronger entry barriers. However, a cost-leadership strategy is more likely to generate increases in market share.

Focused Differentiation

A differentiation-focus strategy is the marketing of a differentiated product to a narrow market, often involving a unique product and a unique market. This strategy is viable for a company that can convince consumers that its narrow focus allows it to provide better goods and services than its competitors.

Differentiation does not allow a firm to ignore costs; it makes a firm's products less susceptible to cost pressures from competitors because customers see the product as unique and are willing to pay extra to have the product with the desirable features. Differentiation can be achieved through real product features or through advertising that causes the customer to perceive that the product is unique.

Differentiation may lead to customer brand loyalty and result in reduced price elasticity. Differentiation may also lead to higher profit margins and reduce the need to be a low-cost producer. Since customers see the product as different from competing products and they like the product features, customers are willing to pay a premium for these features. As long as the firm can increase the selling price by more than the marginal cost of adding the features, the profit margin is increased. Firms must be able to charge more for their differentiated product than it costs them to make it distinct, or else they may be better off making generic,

undifferentiated products. Firms must remain sensitive to cost differences. They must carefully monitor the incremental costs of differentiating their product and make certain the difference is reflected in the price.

Firms pursuing a differentiation strategy are vulnerable to different competitive threats than firms pursuing a cost-leader strategy. Customers may sacrifice features, service, or image for cost savings. Price-sensitive customers may be willing to forgo desirable features in favor of a less costly alternative. This can be seen in the growth in popularity of store brands and private labels. Often, the same firms that produce name-brand products produce the private-label products. The two products may be physically identical, but stores are able to sell the private-label products for a lower price because very little money was put into advertising to differentiate the private-label product.

Imitation may also reduce the perceived differences between products when competitors copy product features. Thus, for firms to be able to recover the cost of marketing research or R&D, they may need to add a product feature that is not easily copied by a competitor.

A final risk for firms pursuing a differentiation strategy is changing consumer tastes. The feature that customers like and find attractive about a product this year may not make the product popular next year. Changes in customer tastes are especially obvious in the fashion industry. For example, although Ralph Lauren's Polo has been a very successful brand of apparel, some younger consumers have shifted to Tommy Hilfiger and other youth-oriented brands.

For a variety of reasons, including the differences between intended versus realized strategies discussed in an earlier section, none of these competitive strategies is guaranteed to achieve success. Some companies that have successfully implemented one of Porter's generic strategies have found that they could not sustain the strategy. Several risks associated with these strategies are based on evolved market conditions (buyer perceptions, competitors, etc.).

Straddling Positions or Stuck in the Middle?

Can forms of competitive advantage be combined? That is, can a firm straddle strategies so that it is simultaneously the low-cost leader and a differentiator? Porter asserts that a successful strategy requires a firm to stake out a market position aggressively and that different strategies involve distinctly different approaches to competing and operating the business. Some research suggests that straddling strategies is a recipe for below-average profitability compared to the industry. Porter also argues that straddling strategies is an indication that the firm's managers have not made necessary choices about the business and its strategy. A straddling strategy may be especially dangerous for narrow scope firms that have been successful in the past, but then start neglecting their focus.

An organization pursuing a differentiation strategy seeks competitive advantage by offering products or services that are unique from those offered by rivals, either through design, brand image, technology, features, or customer service. Alternatively, an organization pursuing a cost-leadership strategy attempts to gain competitive advantage based on being the overall low-cost provider of a product or service. To be "all things to all people" can mean becoming "stuck in the middle" with no distinct competitive advantage. The difference between being "stuck in the middle" and successfully pursuing combination strategies merits discussion. Although Porter describes the dangers of not being successful in either cost control or differentiation, some firms have been able to succeed using combination strategies.

Research suggests that, in some cases, it is possible to be a cost leader while maintaining a differentiated product. Southwest Airlines has combined cost- cutting measures with differentiation. The company has been able to reduce costs by not assigning seating and by eliminating meals on its planes. It has also been able to promote in its advertising that its fares are so low that checked bags fly free, in contrast to the fees that competitors such as American and United charge for checked luggage. Southwest's consistent low-fare strategy has attracted a significant number of passengers, allowing the airline to succeed.

Another firm that has pursued an effective combination strategy is Nike. You may think that Nike has always been highly successful, but it has actually weathered some pretty aggressive competitive assaults. For instance, when customer preferences moved to wide-legged jeans and cargo pants, Nike's market share slipped. Competitors such as Adidas offered less expensive shoes and undercut Nike's price. Nike's stock price dropped in 1998 to half its 1997 high. However, Nike achieved a turnaround by cutting costs and developing new, distinctive products. Nike reduced costs by cutting some of its endorsements. Company research suggested the endorsement by the Italian soccer team, for example, was not achieving the desired results. Michael Jordan and a few other "big name" endorsers were retained while others, such as the Italian soccer team, were eliminated, resulting in savings estimated at over $100 million. Laying off 7% of its 22,000 employees allowed the company to lower costs by another $200 million, and inventory was reduced to save additional money. As a result of these moves, Nike reported a 70% increase in earnings for the first quarter of 1999 and saw a significant rebound in its stock price. While cutting costs, the firm also introduced new products designed to differentiate Nike's products from the competition.

Some industry environments may actually call for combination strategies. Trends suggest that executives operating in highly complex environments, such as health care, do not have the luxury of choosing exclusively one strategy over another. The hospital industry may represent such an environment, as hospitals must compete on a variety of fronts. Combination (i.e., more complicated) strategies are both feasible and necessary to compete successfully. For instance, reimbursement to diagnosis-related groups, and the continual lowering of reimbursement ceilings have forced hospitals to compete on the basis of cost. At the same time, many of them jockey for position with differentiation based on such features as technology and birthing rooms. Thus, many hospitals may need to adopt some form of hybrid strategy to compete successfully[79].

Strategy as Discipline

While Michael Porter's generic strategies were introduced in the 1980s and still

dominate much of the dialogue about strategy and strategizing, a complementary approach was offered more recently by CSC Index consultants Michael Treacy and Fred Wiersema. Their value disciplines model is quite similar to the three generic strategies from Porter (cost leadership, differentiation, focus). However, there is at least one major difference. According to the value disciplines model, no discipline may be neglected: threshold levels on the two disciplines that are not selected must be maintained. According to Porter, companies that act like this run a risk of getting "stuck in the middle."

In their book, *The Discipline of Market Leaders*, they offered four rules that competing companies must obey with regard to strategy formulation:[80]

1. Provide the best offer in the marketplace, by excelling in one specific dimension of value. Market leaders first develop a value proposition, one that is compelling and unmatched.
2. Maintain threshold standards on other dimensions of value. You can't allow performance in other dimensions to slip so much that it impairs the attractiveness of your company's unmatched value.
3. Dominate your market by improving the value year after year. When a company focuses all its assets, energies, and attention on delivering and improving one type of customer value, it can nearly always deliver better performance in that dimension than another company that divides its attention among more than one.
4. Build a well-tuned operating model dedicated to delivering unmatched value. In a competitive marketplace, the customer value must be improved. This is the imperative of the market leader. The operating model is the key to raising and resetting customer expectation.

What Are Value Disciplines?

Treacy and Wiersema describe three generic value disciplines: operational excellence, product leadership, and customer intimacy. As with Porter's perspective about the importance of making trade-offs, any company must choose

one of these value disciplines and consistently and vigorously act on it, as indicated by the four rules mentioned earlier.

Operational Excellence

The case study that their book uses to illustrate the "operational excellence" value discipline is AT&T's experience in introducing the Universal Card, a combined long-distance calling card and general purpose credit card, featuring low annual fees and customer-friendly service. Key characteristics of the strategy are superb operations and execution, often by providing a reasonable quality at a very low price, and task-oriented vision toward personnel. The focus is on efficiency, streamlined operations, supply chain management, no frills, and volume. Most large international corporations are operating according to this discipline. Measuring systems are important, as is extremely limited variation in product assortment.

Product Leadership

Firms that do this strategy well are very strong in innovation and brand marketing. Organization leaders demonstrate a recognition that the company's current success and future prospects lie in its talented product design people and those who support them. The company operates in dynamic markets. The focus is on development, innovation, design, time to market, and high margins in a short time frame. Company cultures are flexible to encourage innovation. Structure also encourages innovation through small ad hoc working groups, an "experimentation is good" mind-set, and compensation systems that reward success. Intel, the leading computer chip company, is a great example of a firm pursuing a successful product leadership strategy.

Customer Intimacy

Companies pursuing this strategy excel in customer attention and customer service. They tailor their products and services to individual or almost individual customers. There is large variation in product assortment. The focus is on:

customer relationship management (CRM), deliver products and services on time and above customer expectations, lifetime value concepts, reliability, being close to the customer. Decision authority is given to employees who are close to the customer. The operating principles of this value discipline include having a full range of services available to serve customers upon demand—this may involve running what the authors call a "hollow company," where a variety of goods or services are available quickly through contract arrangements, rather than the supplier business having everything in stock all the time.

The recent partnership between Airborne Express, IBM, and Xerox is a great example of an effective customer intimacy strategy. Airborne also provides centralized control to IBM and Xerox part-distribution networks. Airborne provides Xerox and IBM with a central source of shipment data and performance metrics. The air-express carrier also manages a single, same-day delivery contract for both companies. In addition, Airborne now examines same-day or special- delivery requirements and recommends a lower-priced alternative where appropriate[81].

Only One Discipline

Treacy and Wiersema maintain that, because of the focus of management time and resources that is required, a firm can realistically choose only one of these three value disciplines in which to specialize. This logic is similar to Porter's in that firms that mix different strategies run the risk of being "stuck in the middle." Most companies, in fact, do not specialize in any of the three, and thus they realize only mediocre or average levels of achievement in each area.

The companies that do not make the hard choices associated with focus are in no sense market leaders. In today's business environment of increased competition and the need more than ever before for competitive differentiation, their complacency will not lead to increased market share, sales, or profits. "When we look at these managers' businesses [complacent firms], we invariably find companies that don't excel, but are merely mediocre on the three disciplines…What they haven't done is create a breakthrough on any one

dimension to reach new heights of performance. They have not traveled past operational competence to reach operational excellence, past customer responsiveness to achieve customer intimacy, or beyond product differentiation to establish product leadership. To these managers we say that if you decide to play an average game, to dabble in all areas, don't expect to become a market leader.[82]"

Within the context of redesigning the operating model of a company to focus on a particular value discipline, Treacy and Wiersema discuss creating what they call "the cult of the customer." This is a mind-set that is oriented toward putting the customer's needs as a key priority throughout the company, at all levels. They also review some of the challenges involved in sustaining market leadership once it is attained (i.e., avoiding the natural complacency that tends to creep into an operation once dominance of the market is achieved).

KEY TAKEAWAYS

- Strategic focus seems to be a common element in the strategies across successful firms.
- Two prevalent views of strategy where focus is a key component are strategy as trade-offs and strategy as discipline.
- Michael Porter identifies three flavors of strategy: (1) cost leadership, (2) differentiation, or (3) focus of cost leadership or differentiation on a particular market niche.
- Firms can straddle these strategies, but such straddling is likely to dilute strategic focus.
- Strategy also provides discipline. Treacy and Wiersema's three strategic disciplines are (1) operational excellence, (2) product leadership, and (3) customer intimacy.

Developing Strategy Through External

Analysis

Learning Objectives

1. Understand the basics of general environment analysis.
2. See the components of microenvironment analysis that support industry analysis.
3. Learn the features of Porter's Five Forces industry analysis.

In this section, you will learn about some of the basic external inputs for strategy formulation—the determinants of a firm's opportunities and threats. We will focus on three aspects of external analysis here, though you recognize that these should be complemented by internal analysis as well. For the external environment, it is best to start with the general environment, and then work your way into the focal industry or industry segment.

The General Environment

When appraising the external environment of the organization you will typically start with its general environment. But what does this mean? The general environment is composed of dimensions in the broader society that influence an industry and the firms within it[83]. We group these dimensions into six segments: political, economic, social, technical or technological, environmental, and legal. You can use the simple acronym, PESTEL, to help remind you of these six general environment segments. Examples of elements analyzed in each of these segments are shown next.

Table 4 PESTEL Analysis

Political	Economic
How stable is the political environment?	What are current and forecast interest rates?
What are local taxation policies, and how do these affect your business?	What is the level of inflation, what is it forecast to be, and how does this affect the growth of your market?

Is the government involved in trading agreements such as EU, NAFTA, ASEAN, or others?	What are local employment levels per capita and how are they changing?
What are the foreign trade regulations?	What are the long-term prospects for the economy gross domestic product (GDP) per capita, and so on?
What are the social welfare policies?	What are exchange rates between critical markets and how will they affect production and distribution of your goods?
Social or Socio-cultural	**Technical or Technological**
What are local lifestyle trends?	What is the level of research funding in government and the industry, and are those levels changing?
What are the current demographics, and how are they changing?	What is the government and industry's level of interest and focus on technology?
What is the level and distribution of education and income?	How mature is the technology?
What are the dominant local religions and what influence do they have on consumer attitudes and opinions?	What is the status of intellectual property issues in the local environment?
What is the level of consumerism and popular attitudes toward it?	Are potentially disruptive technologies in adjacent industries creeping in at the edges of the focal industry?
What pending legislation is there that affects corporate social policies (e.g., domestic partner benefits, maternity/paternity leave)?	How fast is technology changing?
What are the attitudes toward work and leisure?	What role does technology play in competitive advantage?
Environmental	**Legal**
What are local environmental issues?	What are the regulations regarding monopolies and private property?
Are there any ecological or environmental issues relevant to your industry that are pending?	Does intellectual property have legal protections?

How do the activities of international pressure groups affect your business (e.g., Greenpeace, Earth First, PETA)?	Are there relevant consumer laws?
Are there environmental protection laws? What are the regulations regarding waste disposal and energy consumption?	What is the status of employment, health and safety, and product safety laws?

Firms cannot directly control the general environment's segments and elements. Accordingly, successful companies gather the information required to understand each segment and its implications for the selection and implementation of the appropriate strategies. For example, the terrorist attacks in the United States on September 11, 2001, surprised businesses throughout the world. This single set of events had substantial effects on the U.S. economy. Although individual firms were affected differently, none could control the U.S. economy. Instead, companies around the globe were challenged to understand the effects of this economy's decline on their current and future strategies. A similar set of events and relationships was seen around the world as financial markets began to struggle one after the other starting in late 2008. Although the degree of impact varies, these environmental segments affect each industry and its firms. The challenge to the firm is to evaluate those elements in each segment that are of the greatest importance. Resulting from these efforts should be a recognition of environmental changes, trends, opportunities, and threats.

Analyzing the Organization's Microenvironment

When we say microenvironment we are referring primarily to an organization's industry, and the upstream and downstream markets related to it. An industry is a group of firms producing products that are close substitutes. In the course of competition, these firms influence one another. Typically, industries include a rich mix of competitive strategies that companies use in pursuing strategic competitiveness and above-average returns. In part, these strategies are chosen because of the influence of an industry's characteristics[84]. *Upstream* markets are the industries that provide the raw material or inputs for the focal industry, while

downstream markets are the industries (sometimes consumer segments) that consume the industry outputs. For example, the oil production market is upstream of the oil-refining market (and, conversely, the oil refiners are downstream of the oil producers), which in turn is upstream of the gasoline sales market. Instead of upstream and downstream, the terms *wholesale* and *retail* are often used. Accordingly, the industry microenvironment consists of stakeholder groups that a firm has regular dealings with. The way these relationships develop can affect the costs, quality, and overall success of a business.

Porter's Five-Forces Analysis of Market Structure

You can distill down the results of PESTEL and microenvironment analysis to view the competitive structure of an industry using Michael Porter's five forces. Here you will find that your understanding of the microenvironment is particularly helpful. Porter's model[85] attempts to analyze the attractiveness of an industry by considering five
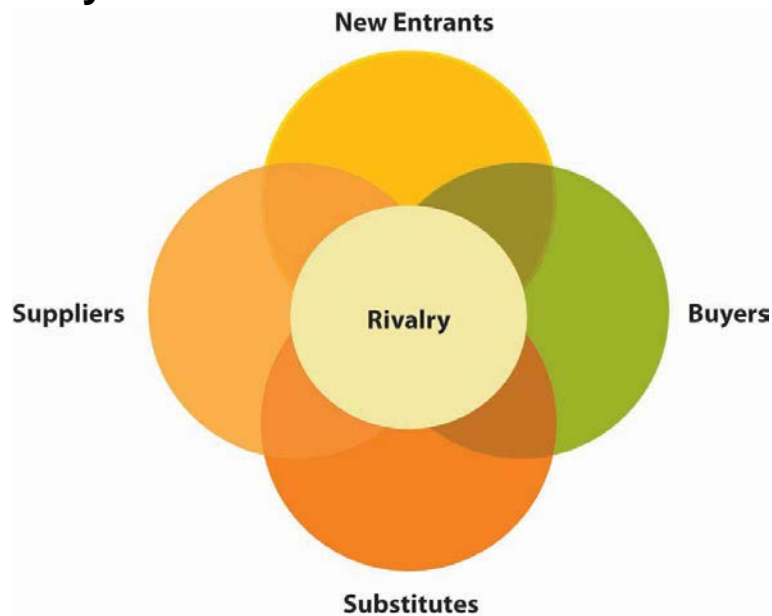

Figure 17 Porter's Five Forces

forces within a market. According to Porter, the likelihood of firms making profits in a given industry depends on five factors: (1) barriers to entry and new entry threats, (2) buyer power, (3) supplier power, (4) threat from substitutes, and (5) rivalry.[86] Compared with the general environment, the industry environment has a more direct effect on the firm's strategic competitiveness and above-average returns, as exemplified in the strategic focus. The intensity of industry competition and an industry's profit potential (as measured by the long-run return on invested

capital) are a function of five forces of competition: the threats posed by new entrants, the power of suppliers, the power of buyers, product substitutes, and the intensity of rivalry among competitors.

Porter's Five-Forces model of competition expands the arena for competitive analysis. Historically, when studying the competitive environment, firms concentrated on companies with which they competed directly. However, firms must search more broadly to identify current and potential competitors by identifying potential customers as well as the firms serving them. Competing for the same customers and thus being influenced by how customers value location and firm capabilities in their decisions is referred to as the market microstructure[87]. Understanding this area is particularly important because, in recent years, industry boundaries have become blurred. For example, in the electrical utilities industry, cogenerators (firms that also produce power) are competing with regional utility companies. Moreover, telecommunications companies now compete with broadcasters, software manufacturers provide personal financial services, airlines sell mutual funds, and automakers sell insurance and provide financing[88]. In addition to focusing on customers rather than specific industry boundaries to define markets, geographic boundaries are also relevant. Research suggests that different geographic markets for the same product can have considerably different competitive conditions[89].

The five-forces model recognizes that suppliers can become a firm's competitors (by integrating forward), as can buyers (by integrating backward). Several firms have integrated forward in the pharmaceutical industry by acquiring distributors or wholesalers. In addition, firms choosing to enter a new market and those producing products that are adequate substitutes for existing products can become competitors of a company.

Another way to think about industry market structure is that these five sets of stakeholders are competing for profits in the given industry. For instance, if a supplier to an industry is powerful, they can charge higher prices. If the industry

member can't pass those higher costs onto their buyers in the form of higher prices, then the industry member makes less profit. For example, if you have a jewelry store, but are dependent on a monopolist like De Beers for diamonds, then De Beers actually is extracting more relative value from your industry (i.e., the retail jewelry business).

New Entrants

The likelihood of new entry is a function of the extent to which barriers to entry exist. Evidence suggests that companies often find it difficult to identify new competitors[90]. Identifying new entrants is important because they can threaten the market share of existing competitors. One reason new entrants pose such a threat is that they bring additional production capacity. Unless the demand for a good or service is increasing, additional capacity holds consumers' costs down, resulting in less revenue and lower returns for competing firms. Often, new entrants have a keen interest in gaining a large market share. As a result, new competitors may force existing firms to be more effective and efficient and to learn how to compete on new dimensions (for example, using an Internet-based distribution channel).

The more difficult it is for other firms to enter a market, the more likely it is that existing firms can make relatively high profits. The likelihood that firms will enter an industry is a function of two factors: barriers to entry and the retaliation expected from current industry participants. Entry barriers make it difficult for new firms to enter an industry and often place them at a competitive disadvantage even when they are able to enter. As such, high-entry barriers increase the returns for existing firms in the industry[91].

Buyer Power

The stronger the power of buyers in an industry, the more likely it is that they will be able to force down prices and reduce the profits of firms that provide the product. Firms seek to maximize the return on their invested capital. Alternatively, buyers (customers of an industry or firm) want to buy products at the lowest possible price—the point at which the industry earns the lowest acceptable rate of

return on its invested capital. To reduce their costs, buyers bargain for higher-quality, greater levels of service, and lower prices. These outcomes are achieved by encouraging competitive battles among the industry's firms.

Supplier Power

The stronger the power of suppliers in an industry, the more difficult it is for firms within that sector to make a profit because suppliers can determine the terms and conditions on which business is conducted. Increasing prices and reducing the quality of its products are potential means used by suppliers to exert power over firms competing within an industry. If a firm is unable to recover cost increases by its suppliers through its pricing structure, its profitability is reduced by its suppliers' actions.

Substitutes

This measures the ease with which buyers can switch to another product that does the same thing, such as using aluminum cans rather than glass or plastic bottles to package a beverage. The ease of switching depends on what costs would be involved (e.g., while it may be easy to sell Coke or Pepsi in bottles or cans, transferring all your data to a new database system and retraining staff could be expensive) and how similar customers perceive the alternatives to be. Substitute products are goods or services from outside a given industry that perform similar or the same functions as a product that the industry produces. For example, as a sugar substitute, NutraSweet places an upper limit on sugar manufacturers' prices—NutraSweet and sugar perform the same function but with different characteristics.

Other product substitutes include fax machines instead of overnight deliveries, plastic containers rather than glass jars, and tea substituted for coffee. Recently, firms have introduced to the market several low-alcohol fruit-flavored drinks that many customers substitute for beer. For example, Smirnoff's Ice was introduced with substantial advertising of the type often used for beer. Other firms have introduced lemonade with 5% alcohol (e.g., Doc Otis Hard Lemon) and tea and

lemon combinations with alcohol (e.g., BoDean's Twisted Tea). These products are increasing in popularity, especially among younger people, and, as product substitutes, have the potential to reduce overall sales of beer.[92]

In general, product substitutes present a strong threat to a firm when customers face few, if any, switching costs and when the substitute product's price is lower or its quality and performance capabilities are equal to or greater than those of the competing product. Differentiating a product along dimensions that customers value (such as price, quality, service after the sale, and location) reduces a substitute's attractiveness.

Rivalry

This measures the degree of competition between existing firms. The higher the degree of rivalry, the more difficult it is for existing firms to generate high profits. The most prominent factors that experience shows to affect the intensity of firms' rivalries are (1) numerous competitors, (2) slow industry growth, (3) high fixed costs, (4) lack of differentiation, (5) high strategic stakes and (6) high exit barriers.

Numerous or Equally Balanced Competitors

Intense rivalries are common in industries with many companies. With multiple competitors, it is common for a few firms to believe that they can act without eliciting a response. However, evidence suggests that other firms generally are aware of competitors' actions, often choosing to respond to them. At the other extreme, industries with only a few firms of equivalent size and power also tend to have strong rivalries. The large and often similar-sized resource bases of these firms permit vigorous actions and responses. The Fuji/Kodak and Airbus/Boeing competitive battles exemplify intense rivalries between pairs of relatively equivalent competitors.

Slow Industry Growth

When a market is growing, firms try to use resources effectively to serve an expanding customer base. Growing markets reduce the pressure to take customers from competitors. However, rivalry in non-growth or slow-growth

markets becomes more intense as firms battle to increase their market shares by attracting their competitors' customers.

Typically, battles to protect market shares are fierce. Certainly, this has been the case with Fuji and Kodak. The instability in the market that results from these competitive engagements reduce profitability for firms throughout the industry, as is demonstrated by the commercial aircraft industry. The market for large aircraft is expected to decline or grow only slightly over the next few years. To expand market share, Boeing and Airbus will compete aggressively in terms of the introduction of new products and product and service differentiation. Both firms are likely to win some and lose other battles. Currently, however, Boeing is the leader.

High Fixed Costs or High Storage Costs

When fixed costs account for a large part of total costs, companies try to maximize the use of their productive capacity. Doing so allows the firm to spread costs across a larger volume of output. However, when many firms attempt to maximize their productive capacity, excess capacity is created on an industry- wide basis. To then reduce inventories, individual companies typically cut the price of their product and offer rebates and other special discounts to customers. These practices, however, often intensify competition. The pattern of excess capacity at the industry level followed by intense rivalry at the firm level is observed frequently in industries with high storage costs. Perishable products, for example, lose their value rapidly with the passage of time. As their inventories grow, producers of perishable goods often use pricing strategies to sell products quickly.

Lack of Differentiation or Low Switching Costs

When buyers find a differentiated product that satisfies their needs, they frequently purchase the product loyally over time. Industries with many companies that have successfully differentiated their products have less rivalry,   resulting in lower competition for individual firms[93]. However, when buyers view products as commodities (as products with few differentiated features or capabilities), rivalry intensifies. In these instances, buyers' purchasing decisions are based primarily on

price and, to a lesser degree, service. Film for cameras is an example of a commodity. Thus, the competition between Fuji and Kodak is expected to be strong.

The effect of switching costs is identical to that described for differentiated products. The lower the buyers' switching costs, the easier it is for competitors to attract buyers through pricing and service offerings. High switching costs, however, at least partially insulate the firm from rivals' efforts to attract customers. Interestingly, the switching costs—such as pilot and mechanic training—are high in aircraft purchases, yet, the rivalry between Boeing and Airbus remains intense because the stakes for both are extremely high.

High Strategic Stakes

Competitive rivalry is likely to be high when it is important for several of the competitors to perform well in the market. For example, although it is diversified and is a market leader in other businesses, Samsung has targeted market leadership in the consumer electronics market. This market is quite important to Sony and other major competitors such as Hitachi, Matsushita, NEC, and Mitsubishi. Thus, we can expect substantial rivalry in this market over the next few years.

High strategic stakes can also exist in terms of geographic locations. For example, Japanese automobile manufacturers are committed to a significant presence in the U.S. marketplace. A key reason for this is that the United States is the world's single largest market for auto manufacturers' products. Because of the stakes involved in this country for Japanese and U.S. manufacturers, rivalry among firms in the U.S. and global automobile industry is highly intense. While close proximity tends to promote greater rivalry, physically proximate competition has potentially positive benefits as well. For example, when competitors are located near one another, it is easier for suppliers to serve them and they can develop economies of scale that lead to lower production costs. Additionally, communications with key industry stakeholders such as suppliers are facilitated and more efficient when

they are close to the firm[94].

High Exit Barriers

Sometimes companies continue competing in an industry even though the returns on their invested capital are low or negative. Firms making this choice likely face high exit barriers, which include economic, strategic, and emotional factors, causing companies to remain in an industry when the profitability of doing so is questionable.

Attractiveness and Profitability

Using Porter's analysis firms are likely to generate higher profits if the industry:

- Is difficult to enter.
- There is limited rivalry.
- Buyers are relatively weak.
- Suppliers are relatively weak.
- There are few substitutes.

Profits are likely to be low if:

- The industry is easy to enter.
- There is a high degree of rivalry between firms within the industry.
- Buyers are strong.
- Suppliers are strong.
- It is easy to switch to alternatives.

Effective industry analyses are products of careful study and interpretation of data and information from multiple sources. A wealth of industry-specific data is available to be analyzed. Because of globalization, international markets and rivalries must be included in the firm's analyses. In fact, research shows that in some industries, international variables are more important than domestic ones as determinants of strategic competitiveness. Furthermore, because of the development of global markets, a country's borders no longer restrict industry

structures. In fact, movement into international markets enhances the chances of success for new ventures as well as more established firms[95].

Following study of the five forces of competition, the firm can develop the insights required to determine an industry's attractiveness in terms of its potential to earn adequate or superior returns on its invested capital. In general, the stronger competitive forces are, the lower the profit potential for an industry's firms. An unattractive industry has low entry barriers, suppliers and buyers with strong bargaining positions, strong competitive threats from product substitutes, and intense rivalry among competitors. These industry characteristics make it very difficult for firms to achieve strategic competitiveness and earn above- average returns. Alternatively, an attractive industry has high entry barriers, suppliers and buyers with little bargaining power, few competitive threats from product substitutes, and relatively moderate rivalry[96].

KEY TAKEAWAYS

- External environment analysis is a key input into strategy formulation.
- PESTEL is an external environment analysis framework that helps guide one's prospecting in the political, economic, social, technological, environmental, and legal spheres of an organization's external environment.
- Working inward to the focal organization, we discussed the broad dimensions of the stakeholders feeding into the firm.
- Porter's five forces analysis considers (1) barriers to entry and new entry threats, (2) buyer power, (3) supplier power, (4) threat from substitutes, and (5) rivalry as key external environmental forces in developing strategy.

Chapter 4 Review Questions

Multiple Choice:

1. This area answers the question - how should we compete?
   a. business strategy
   b. corporate strategy
   c. speaker
   d. strategizing

2. In terms of strategic inputs, _____ assess the external attractive factors.
   a. strengths
   b. weaknesses
   c. opportunities
   d. threats

3. For Porters generic strategies, firms employing _____ strategy may focus on a particular buyer segment or a particular geographic segment and must locate a niche market.
   a. differentiation
   b. focused differentiation
   c. focused low cost
   d. low cost

4. The best strategies come about when managers are able to balance the need for _____ with being flexible enough to capitalize on the benefits of emergence.
   a. creativity
   b. growth
   c. leading
   d. planning

5. According to Porters Five Forces Analysis, _____ measures the ease with which buyers can switch to another product that does the same thing.
   a. buyers
   b. new entrants
   c. substitutes
   d. suppliers

Short Answer:

- Describe the difference between strategy formulation versus strategy implementation.

- Describe the three flavors of strategy identified by Michael Porter.

- Explain each area within the acronym SWOT.

Chapter 5 Goals and Objectives

Reading this chapter will help you do the following:

1. Understand the nature of goals and objectives and why they are important.

2. See how our thinking about goals and objectives has evolved.

3. Know what characterizes good goals and objectives.

4. Understand the roles of goals and objectives in employee performance reviews.

5. Map out relationships among economic, social, and environmental goals and objectives.

6. Set and manage your own goals and objectives.

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 18 Goals and Objectives in the P-O-L-C Framework

Goals and objectives are a critical component of management, both in terms of planning and in terms of the larger planning-organizing-leading-controlling (P-O-L-C) framework. You can see their role summarized in the P-O-L-C figure. Unfortunately, because their role and importance seem obvious, they also tend to be neglected in managerial practice or poorly aligned with the organization's strategy. You can imagine why this might be problematic, particularly since one of a manager's functions is to evaluate employee performance—it would be nice if employees could be evaluated based on how their achievement of individual goals

and objectives contributes to those critical to the organization's survival and success. In this chapter, we introduce you to the basics on goals and objectives and provide you with an understanding of how their usage has evolved. We also show you how to develop a personalized set of goals and objectives to help you achieve your personal and professional aspirations.

The Nature of Goals and Objectives

LEARNING OBJECTIVES
1. Know the difference between goals and objectives.
2. Know the relationship between goals and objectives.
3. See how goals and objectives fit in the P-O-L-C framework.

What Are Goals and Objectives?

Goals and objectives provide the foundation for measurement. Goals are outcome statements that define what an organization is trying to accomplish, both programmatically and organizationally. Goals are usually a collection of related programs, a reflection of major actions of the organization, and provide rallying points for managers. For example, Wal-Mart might state a financial goal of growing its revenues 20% per year or have a goal of growing the international parts of its empire. Try to think of each goal as a large umbrella with several spokes coming out from the center. The umbrella itself is a goal.

In contrast to goals, objectives are very precise, time-based, measurable actions that support the completion of a goal. Objectives typically must (1) be related directly to the goal; (2) be clear, concise, and understandable; (3) be stated in terms of results; (4) begin with an action verb; (5) specify a date for accomplishment; and (6) be measurable. Apply our umbrella analogy and think of each spoke as an objective. Going back to the Wal-Mart example, and in support of the company's 20% revenue growth goal, one objective might be to "open 20 new stores in the next six months." Without specific objectives, the general goal could not be accomplished—just as an umbrella cannot be put up or down without

the spokes. Importantly, goals and objectives become less useful when they are unrealistic or ignored. For instance, if your university has set goals and objectives related to class sizes but is unable to ever achieve them, then their effectiveness as a management tool is significantly decreased.

Measures are the actual metrics used to gauge performance on objectives. For instance, the *objective* of improved financial performance can be *measured* using a number metrics, ranging from improvement in total sales, profitability, efficiencies, or stock price. You have probably heard the saying, "what gets measured, gets done." Measurement is critical to today's organizations. It is a fundamental requirement and an integral part of strategic planning and of principles of management more generally. Without measurement, you cannot tell where you have been, where you are now, or if you are heading in the direction you are intending to go. While such statements may sound obvious, the way that most organizations have set and managed goals and objectives has generally not kept up with this commonsense view.

Measurement Challenges

There are three general failings that we can see across organizations related to measurement. First, many organizations still emphasize historic financial goals and objectives, even though financial outcomes are pretty narrow in scope and are purely historic; by analogy, financial measures let you know where you've been, but may not be a good predictor of where you are going.[97]

Second, financial outcomes are often short term in nature, so they omit other key factors that might be important to the longer-term viability of the organization. For instance, *return on sales* (ROS, or net profit divided by total sales) is a commonly used measure of financial performance, and firms set goals and objectives related to return on sales. However, an organization can increase return on sales by cutting investments in marketing and research and development (since they are costs that lessen the "return" dimension of ROS). It may be a good thing to cut such costs, but that type of cost-cutting typically hurts the organization's longer-

term prospects. Decreases in marketing may reduce brand awareness, and decreases in research and development (R&D) will likely stifle new product or service development.

Finally, goals and objectives, even when they cover more than short-term financial metrics, are often not tied to strategy and ultimately to vision and mission. Instead, you may often see a laundry list of goals and objectives that lack any larger organizing logic. Or the organization may have adopted boilerplate versions of nonfinancial measurement frameworks such as Kaplan and Norton's Balanced Scorecard, Accenture's Performance Prism, or Skandia's Intellectual Capital Navigator[98].

Goals and Objectives in P-O-L-C

Goals and objectives are an essential part of planning. They also have cascading implications for all the aspects of organizing, leading, and controlling. Broadly speaking, goals and objectives serve to:

- Gauge and report performance
- Improve performance
- Align effort
- Manage accountabilities

Goals, Objectives, and Planning

Planning typically starts with a vision and a mission. Then managers develop a strategy for realizing the vision and mission; their success and progress in achieving vision and mission will be indicated by how well the underlying goals and objectives are achieved. A vision statement usually describes some broad set of goals—what the organization aspires to look like in the future. Mission statements too have stated goals—what the organization aspires to be for its stakeholders. For instance, Mars, Inc., the global food giant, sets out five mission statement goals in the areas of quality, responsibility, mutuality, efficiency, and freedom. Thus, goals are typically set for the organization as a whole and set the stage for a

hierarchy of increasingly specific and narrowly set goals and objectives.

However, unless the organization consists of only a single person, there are typically many working parts in terms of functional areas and product or service areas. Functional areas like accounting and marketing will need to have goals and objectives that, if measured and tracked, help show if and how those functions are contributing to the organization's goals and objectives. Similarly, product and service areas will likely have goals and objectives. Goals and objectives can also be set for the way that functions and product or service areas interact. For instance, are the accounting and marketing functions interacting in a way that is productive? Similarly, is marketing delivering value to product or service initiatives?

Goals, Objectives, and Organizing, Leading, and Controlling

Within the planning facet of P-O-L-C alone, you can think of goals and objectives as growing in functional or product/service arena specificity as you move down the organization. Similarly, the time horizon can be shorter as you move down the organization as well. This relationship between hierarchy and goals and objectives is summarized in the following figure.

Obviously, the role of goals and objectives does not stop in the planning stage. If goals and objectives are to be achieved and actually improve the competitive position of the firm, then the organizing, leading, and controlling stages must address goals and objectives as well.

The way that the firm is organized can affect goals and objectives in a number of ways. For instance, a functional organizational structure, where departments are broken out by finance, marketing, operations, and so on, will likely want to track the performance of each department, but exactly what constitutes performance will probably vary from function to function.

In terms of leadership, it is usually top managers who set goals and objectives for the entire organization. Ideally, then, lower-level managers would set or have input into the goals and objectives relevant to their respective parts of the business. For

example, a CEO might believe that the company can achieve a sales growth goal of 20% per year. With this organizational goal, the marketing manager can then set specific product sales goals, as well as pricing, volume, and other objectives, throughout the year that show how marketing is on track to deliver its part of organizational sales growth. Goal setting is thus a primary function of leadership, along with holding others accountable for their respective goals and objectives.

Figure 19 Goals and Objectives in Planning

Finally, goals and objectives can provide a form of control since they create a feedback opportunity regarding how well or how poorly the organization executes its strategy. Goals and objectives also are a basis for reward systems and can align interests and accountability within and across business units. For instance, in a business with several divisions, you can imagine that managers and employees may behave differently if their compensation and promotion are tied to overall company performance, the performance of their division, or some combination of the two.

> ## KEY TAKEAWAYS
>
> - Goals are typically outcome statements, while objectives are very precise, time-based, and measurable actions that support the completion of goals.
> - Goals and objectives are an essential element in planning and are a key referent point in many aspects of organizing, leading, and controlling.
> - Broadly speaking, within the P-O-L-C framework, goals and objectives serve to (1) gauge and report performance, (2) improve performance, (3) align effort and, (4) manage accountabilities.

From Management by Objectives to the Balanced Scorecard

LEARNING OBJECTIVES

1. Be able to describe management by objectives.
2. Be able to describe the Balanced Scorecard.
3. Understand the evolution of performance measurement systems.

As you might expect, organizations use a variety of measurement approaches—that is, how they go about setting and managing goals and objectives. If you have an understanding of how the use of these approaches has evolved, starting with management by objectives (MBO), you will also have a much better view of how and why the current incarnations, as seen by variations on the Balanced Scorecard, have many desirable features.

Management by Objectives

MBO is a systematic and organized approach that allows management to focus on achievable goals and to attain the best possible results from available resources. MBO aims to increase organizational performance by aligning the subordinate

objectives throughout the organization with the overall goals that management has set. Ideally, employees get strong input to identify their objectives, time lines for completion, and so on. MBO includes ongoing tracking and feedback in the process to reach objectives.

MBO was first outlined by Peter Drucker in 1954 in *The Practice of Management*. One of Drucker's core ideas in MBO was where managers should focus their time and energy. According to Drucker, effective MBO managers focus on the result, not the activity. They delegate tasks by "negotiating a contract of objectives" with their subordinates and by refraining from dictating a detailed road map for implementation. MBO is about setting goals and then breaking these down into more specific objectives or key results. MBO involves (1) setting company-wide goals derived from corporate strategy, (2) determining team- and department-level goals, (3) collaboratively setting individual-level goals that are aligned with corporate strategy, (4) developing an action plan, and (5) periodically reviewing performance and revising goals.[99] A review of the literature shows that 68 out of the 70 studies conducted on this topic showed performance gains as a result of MBO implementation.[100] It also seems that top management commitment to the process is the key to successful implementation of MBO programs[101]. The broader principle behind MBO is to make sure that everybody within the organization has a clear understanding of the organization's goals, as well as awareness of their own roles and responsibilities in achieving objectives that will help to attain those goals. The complete MBO system aims to get managers and empowered employees acting to implement and achieve their plans, which automatically achieves the organization's goals.

Setting Objectives

In MBO systems, goals and objectives are written down for each level of the organization, and individuals are given specific aims and targets. As consultants Robert Heller and Tim Hindle explain, "The principle behind this is to ensure that people know what the organization is trying to achieve, what their part of the organization must do to meet those aims, and how, as individuals, they are

expected to help. This presupposes that organization's programs and methods have been fully considered. If they have not, start by constructing team objectives and ask team members to share in the process.[102]" Echoing Drucker's philosophy, "the one thing an MBO system should provide is focus; most people disobey this rule, try to focus on everything, and end up with no focus at all," says Andy Grove, who ardently practiced MBO at Intel. This implies that objectives are precise and few in effective MBO systems.

Similarly, for MBO to be effective, individual managers must understand the specific objectives of their job and how those objectives fit in with the overall company goals set by the board of directors. As Drucker wrote, "A manager's job should be based on a task to be performed in order to attain the company's goals…the manager should be directed and controlled by the objectives of performance rather than by his boss.[103]" The managers of an organization's various units, subunits, or departments should know not only the objectives of their unit but should also actively participate in setting these objectives and make responsibility for them. The review mechanism enables the organization's leaders to measure the performance of the managers who report to them, especially in the key result areas: marketing, innovation, human organization, financial resources, physical resources, productivity, social responsibility, and profit requirements.

Seeking a Balance: The Move Away from MBO

In recent years, opinion has moved away from placing managers into a formal, rigid system of objectives. In the 1990s, Drucker decreased the significance of this organization management method when he said, "It's just another tool. It is not the great cure for management inefficiency.[104]" Recall also that goals and objectives, when managed well, are tied in with compensation and promotion. In 1975, Steve Kerr published his critical management article titled, "On the Folly of Rewarding A, While Hoping for B," in which he lambasted the rampant disconnect between reward systems and strategy[105]. Some of the common management reward follies suggested by Kerr and others are summarized in the following table. His criticism included the objective criteria characteristic of most MBO systems. Kerr went on to

lead GE's human resources function in the mid-1970's and is credited with turning that massive organization's recruiting, reward, and retention systems into one of its key sources of competitive advantage.

Table 5 Common Management Reward Follies

We hope for…	But we often reward…
Long-term growth; environmental responsibility	Quarterly earnings
Teamwork	Individual effort
Setting challenging "stretch" goals	Achieving objectives; "making the numbers"
Downsizing; rightsizing; restructuring	Adding staffing; adding budget
Commitment to quality	Shipping on schedule, even with defects
Commitment to customer service	Keeping customers from bothering us. This item was not one of Kerr's originals but is consistent with the spirit of Kerr's article. We thank our developmental editor, Elsa Peterson, for this suggestion.
Candor; surfacing bad news early	Reporting good news, whether it's true or not; agreeing with the boss, whether or not she or he is right

Even though formal MBO programs have been out of favor since the late 1980s and early 1990s, linking employee goals to company-wide goals is a powerful idea that benefits organizations. This is where the Balanced Scorecard and other performance management systems come into play.

The Balanced Scorecard

Developed by Robert Kaplan and David Norton in 1992, the Balanced Scorecard approach to management has gained popularity worldwide since the 1996 release of their text, *The Balanced Scorecard: Translating Strategy into Action*. In 2001, the Gartner Group estimated that at least 40% of all *Fortune* 1000 companies were using Balanced Scorecard; however, it can be complex to implement, so it is likely that the format of its usage varies widely across firms.

The Balanced Scorecard is a framework designed to translate an organization's mission and vision statements and overall business strategy into specific, quantifiable goals and objectives and to monitor the organization's performance in terms of achieving these goals. Among other criticisms of MBO, one was that it seemed disconnected from a firm's strategy, and one of Balanced Scorecard's innovations is explicit attention to vision and strategy in setting goals and objectives. Stemming from the idea that assessing performance through financial returns only provides information about how well the organization did prior to the assessment, the Balanced Scorecard is a comprehensive approach that analyzes an organization's overall performance in four ways, so that future performance can be predicted and proper actions taken to create the desired future.

Four Related Areas

Balanced Scorecard[106] shares several common features. First, as summarized in the following figure, it spells out goals and objectives for the subareas of customers, learning and growth, internal processes, and financial performance. The customer area looks at customer satisfaction and retention. Learning and growth explore the effectiveness of management in terms of measures of employee satisfaction and retention and information system performance. The internal area looks at production and innovation, measuring performance in terms

Figure 20 The Balanced Scorecard

of maximizing profit from current products and following indicators for future productivity. Finally, financial performance, the most traditionally used performance

indicator, includes assessments of measures such as operating costs and return-on-investment.

On the basis of how the organization's strategy is mapped out in terms of customer, learning, internal, and financial goals and objectives, specific measures, and the specific activities for achieving those are defined as well. This deeper Balanced Scorecard logic is summarized in the following figure. The method examines goals, objectives, measures, and activities in four areas. When performance measures for areas such as customer relationships, internal processes, and learning and growth are added to the financial metrics, proponents of the Balanced Scorecard argue that the result is not only a broader perspective on the company's health and activities, it's also a powerful organizing framework. It is a sophisticated instrument panel for coordinating and fine- tuning a company's operations and businesses so that all activities are aligned with its strategy.

As a structure, Balanced Scorecard breaks broad goals down successively into objectives, measures, and tactical activities. As an example of how the method might work, an organization might include in its mission or vision statement a goal of maintaining employee satisfaction (for instance, the mission statement might say something like "ou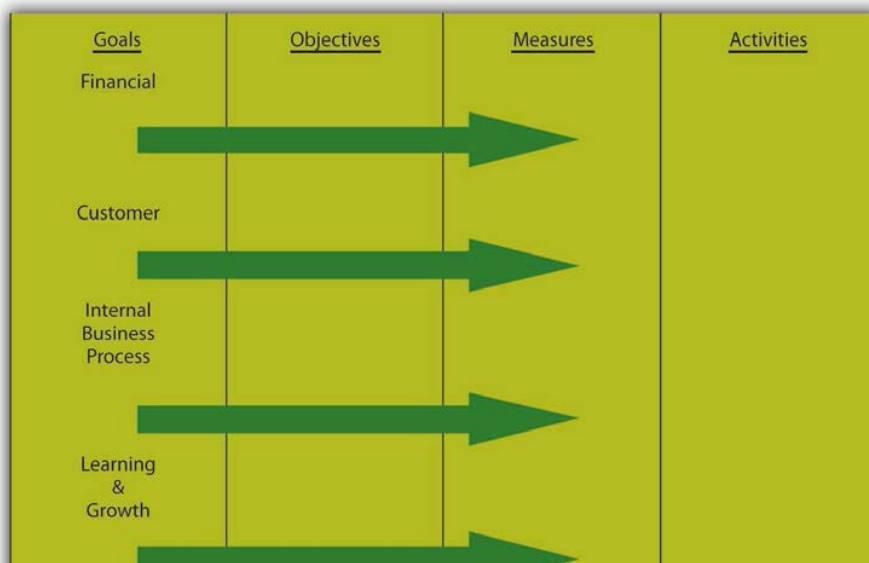r employees are our most valuable asset"). This would be a key part of the organization's mission but would also provide an "internal" target area for that goal in the Balanced Scorecard. Importantly, this goal, when

Figure 21 Using the Balanced Scorecard to Translate Goals into Activities

done correctly, would also be linked to the organization's total strategy where other parts of the scorecard would show how having great employees provides economic, social, and environmental returns. Strategies for achieving that human resources vision might include approaches such as increasing employee-management communication. Tactical activities undertaken to implement the strategy could include, for example, regularly scheduled meetings with employees. Finally, metrics could include quantifications of employee suggestions or employee surveys.

The Balanced Scorecard in Practice[107]

In practice, the Balanced Scorecard is supposed to be more than simply a framework for thinking about goals and objectives, but even in that narrow sense, it is a helpful organizing framework. The Balanced Scorecard's own inventors "rightly insist that every company needs to dig deep to discover and track the activities that truly affect the frameworks' broad domains (domains such as 'financial,' 'customer,' 'internal business processes,' and 'innovation and learning')[108]." In its broadest scope, where the scorecard operates much like a map of the firm's vision, mission, and strategy, the Balanced Scorecard relies on four processes to bind short-term activities to long-term objectives:

1. *Translating the vision.* By relying on measurement, the scorecard forces managers to come to agreement on the metrics they will use to translate their lofty visions into everyday realities.

2. *Communicating and linking.* When a scorecard is disseminated up and down the organizational chart, strategy becomes a tool available to everyone. As the high-level scorecard cascades down to individual business units, overarching strategic objectives and measures are translated into objectives and measures appropriate to each particular group. Tying these targets to individual performance and compensation systems yields "personal scorecards." Thus, individual employees understand how their own productivity supports the overall strategy.

3. *Business planning.* Most companies have separate procedures (and

sometimes units) for strategic planning and budgeting. Little wonder, then, that typical long-term planning is, in the words of one executive, where "the rubber meets the sky." The discipline of creating a Balanced Scorecard forces companies to integrate the two functions, thereby ensuring that financial budgets indeed support strategic goals. After agreeing on performance measures for the four scorecard perspectives, companies identify the most influential "drivers" of the desired outcomes and then set milestones for gauging the progress they make with these drivers.

4. *Feedback and learning*. By supplying a mechanism for strategic feedback and review, the Balanced Scorecard helps an organization foster a kind of learning often missing in companies: the ability to reflect on inferences and adjust theories about cause-and-effect relationships.

Other Performance Measurement Systems

You can imagine that it might be difficult for organizations to change quickly from something like MBO to a Balanced Scorecard approach. Indeed, both MBO and the Balanced Scorecard fit in the larger collection of tools called performance management systems. Such systems outline "the process through which companies ensure that employees are working towards organizational goals.[109]" Performance management begins with a senior manager linking his or her goals and objectives to the strategic goals of the organization. The manager then ensures that direct reports develop their goals in relation to the organization's overall goals. In a multidivisional or multilocation organization, lower-level managers develop their goals, and thus their departmental goals, to correspond to the organizational goals. Staff members within each department then develop their objectives for the year, in cooperation with their managers. Using this pattern for planning, all activities, goals, and objectives for all employees should be directly related to the overall objectives of the larger organization.

Performance management systems are more than the performance review because reviews typically are the final event in an entire year of activity. At the beginning of the year, the manager and employee discuss the employee's goals or

objectives for the year. This will form the basis for ongoing discussion recorded in a document called the performance plan. The manager assists employees in developing their objectives by helping them to understand how their work relates to the department goals and the overall goals of the organization. The employee and manager also should work together to determine the measurements for evaluating each of the objectives. It is important that both the manager and employee agree what the objectives are and how they are to be measured.

Employees should not be set up with unrealistic expectations, which will only lead to a sense of failure. If additional support or education is required during the year to help employees meet their objectives, those can also be identified and planned for at this time.

The performance plan will contain the section on goals or objectives. It also should include a section that identifies the organization's expectations of employee competencies. The set of expectations will involve a range of competencies applicable to employees based on their level in the organization. These competencies include expectations of how employees deal with problems, how proactive they are with respect to changing work, and how they interact with internal and external customers. While less complex than the Balanced Scorecard, you can see how the essential components are related. In addition to basic behavioral traits, supervisors and managers are expected to exhibit leadership and, more senior still, provide vision and strategic direction. It is important to ensure that employees understand these competencies in respect to themselves.

Throughout the year, the supervisor must participate actively in coaching and assisting all employees to meet their individual goals and objectives. Should a problem arise—either in the way that success is being measured or in the nature of the objectives set at the beginning of the year—it can be identified well in advance of any review, and adjustments to the goals or support for the employee can be provided. This is referred to as continual assessment.

For example, suppose a staff member predicted that he or she would complete a particular project by a particular date, yet they have encountered problems in receiving vital information from another department. Through active involvement in staff activities, the supervisor is made aware of the situation and understands that the employee is intimidated by the supervisor they must work with in the other department. With coaching, the employee develops a method for initiating contact with the other department and receives the vital information she requires to meet her objective.

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KEY TAKEAWAYS

- The way that goals and objectives are managed in the P-O-L-C process has evolved over time. While organizations can have very simple performance measurement systems, these systems typically track multiple goals and objectives.

- The management by objectives (MBO) approach is perhaps one of the earliest systematic approaches to working with goals and objectives.

- The Balanced Scorecard is aimed to make key improvements on a simple MBO system, particularly by more clearly tying goals and objectives to vision, mission, and strategy and branching out beyond purely financial goals and objectives.

- MBO and the Balanced Scorecard belong to the larger family of systems called performance management systems.

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Characteristics of Effective Goals and Objectives

LEARNING OBJECTIVES

1. Be able to set appropriate goals.
2. Be able to troubleshoot an existing set of goals and objectives.
3. Understand the characteristics of good goals and objectives.

To be clear, this section does not outline which goals or objectives are appropriate or inappropriate, economically, ethically, morally, or otherwise. Instead, you will learn many of the characteristics of good goals and objectives, with the aim of becoming a better organizational goal setter (in the last section of this chapter, we remind you about SMART criteria, which is the application of many of this section's takeaways to the development of your personal and professional goals and objectives). At the same time, you should be able to look at a set of goals and objectives and critique them effectively, such that more appropriate goals and objectives can be developed to replace them.

Eight Characteristics of Appropriate Goals and Objectives

1. Less is more

2. Tie measures to drivers

3. Don't just measure the past

4. Take stakeholders into account

5. Cascade goals into objectives

6. Simplify

7. Adapt

8. Base objectives on facts

Figure 22 Characteristics of Appropriate Goals and Objectives

We tend to think that goals and objectives are easy to set, and yet, this intuition is often wrong in the organizational context. Goals and objectives are difficult to set because we might not know what they should cover or because we lay out too many of them with the hope that we are covering all the bases. Similarly, goals and objectives can proliferate in organizations because new ones are set, while old ones are not discarded. Stanford University management professor Kathleen Eisenhardt noted that there must be a certain balance to the number and type of goals and objectives: too many goals and objectives are paralyzing; too few, confusing.[110]

In his popular book, *Keeping Score*, Mark Graham Brown lists several important factors to aid managers in "rethinking" their approach to setting and managing goals and objectives, what we might call the organization's *measurement system more broadly.*[111]

1. Fewer are better. Concentrate on measuring the vital few key variables rather than the trivial many.
2. Measures should be linked to the factors needed for success—key business drivers.
3. Measures should be a mix of past, present, and future to ensure the organization is concerned with all three perspectives.
4. Measures should be based around the needs of customers, shareholders, and other key stakeholders.
5. Measures should start at the top and flow down to all levels of employees in the organization.
6. Multiple indices can be combined into a single index to give a better overall assessment of performance.
7. Measures should be changed or at least adjusted as the environment and your strategy changes.
8. Measures need to have targets or objectives established that are based on research rather than arbitrary numbers.

Let's walk through each of these criteria to gain a better understanding of these desirable characteristics of organizational goals and objectives. It is useful here to start by recognizing that goals, objectives, and measures are different animals. As explained at the beginning of this chapter, goals tend to be general statements, whereas objectives are specific and time bound. Measures are the indicators used to assess achievement of the objective. In some cases, a goal, an objective, and a measure can be the same thing, but more often you will set a goal, have a few objectives underlying that goal, and then one or more measures for each of the objectives.

Less Is More

Less is more, fewer is better, and simple rules are the common mantra here. Eisenhardt suggests that organizations should have two to seven key goals, or *rules*, using her vocabulary.[112] Such goals guide how the firm operates, identify which opportunities to pursue, set priorities, manage timing of actions, and even

inform business exit decisions.

If the organization should have only two to seven key goals, what about objectives and measures? Metric guru Graham Brown suggests that managers should not try to follow any more than 20 measures of performance in terms of performance on objectives. Thus, with two to seven goals, and 20 performance measures, this means that you will likely have a number of objectives somewhere between the number of set goals and the number of measures. Why this limit? "No individual can monitor and control more than twenty variables on a regular basis," says Graham Brown.[113]

Tie Measures to Drivers of Success

One of the key litmus tests for setting goals, objectives, and measures is whether they are linked in some way to the key factors driving an organization's success or competitive advantage. This means that they must provide a verified path to the achievement of a firm's strategy, mission, and vision. This characteristic of effective goals, objectives, and measures is one reason that many managers use some form of Balanced Scorecard in their businesses. The Balanced Scorecard process provides a framework for evaluating the overall measurement system in terms of what strategic objectives it contributes to. The big challenge, however, is to verify and validate the link to success factors. Managers who do not scrupulously uncover the fundamental drivers of their units' performance face several potential problems. They often end up measuring too many things, trying to fill every perceived gap in the measurement system.

Don't Just Measure the Past

For a variety of reasons it is important to capture past performance. After all, many stakeholders such as investors, owners, customers, and regulators have an interest in how the firm has lived up to its obligations. However, particularly in the area of objectives and measurement, the best systems track the past, present, and future. Echoing this observation, Robert Kaplan, co-originator of the Balanced Scorecard framework, published another book on the subject called *The Balanced*

Scorecard: You Can't Drive a Car Solely Relying on a Rearview Mirror. A combination of goals, objectives, and measures that provides such information is sometimes referred to as a dashboard—like the analogy that a dashboard tells you how the car is running, and through the windshield you can see where you are going. Indicators on how well the economy is doing, for instance, can suggest whether your business can experience growing or declining sales. Another leading indicator is customer satisfaction. General Electric, for instance, asks its customers whether they will refer other customers to GE. GE's managers have found that the higher this likelihood of referral, the greater the next quarter's sales demands. As a result, GE uses this measure to help it forecast future growth, as well as evaluate the performance of each business unit.

Take Stakeholders Into Account

While it is important to track the goals and objectives most relevant to the needs of the business, relevance is subjective. This is why it is valuable to understand who the organization's key stakeholders are, and set the goals, objectives, and measures in such a way that stakeholders can be satisfied. Or, at the very least, stakeholders can gain information relevant to their particular interests. Some stakeholders may never be entirely satisfied with companies' performance—for example, some environmental groups may continue to criticize a company's environmental impact, but they can be somewhat placated with more transparent reporting of what the company is doing on the environmental front. Similarly, stakeholders with social concerns will appreciate transparency in reporting on the organization's corporate social responsibility efforts.

Cascade Goals Into Objectives

The less-is-more concept can apply to the way that goals cascade into objectives, which cascade into measures. Tying goals and objectives to drivers of success means that vision, mission, and strategy cascade down to goals, and so on. The first benefit of this cascade approach is that goals and objectives are consistent with the strategy, vision, and mission. A second benefit is that goals and objectives in lower levels of the organization are more likely to be vertically and horizontally

consistent since they should be designed to achieve the higher-level goals and objectives and, ultimately, the overarching strategy of the organization.

Simplify

Information overload is a challenge facing all managers (and students and teachers!), and simplification builds on the idea that managers can attend to a few things well but many things poorly. Simplification refers both to the use of fewer, not more, metrics, objectives and goals, and the idea that multiple measures should be distilled down into single measures like an index or a simple catch-all question. For instance, GE's use of the single question about referring customers is a powerful but effective leading metric and a metric that it can reinforce with its rewards system. When metrics involve multiple dimensions, in areas where the organization wants to gauge customer satisfaction, for example, a survey can have 10 or more questions. Think about the many customer satisfaction surveys you are asked to complete after making an online purchase. Which question is the most important? The challenge, of course, is that a simple average of the customer survey scores, while providing a simpler indicator, also may hide some key indicator that is now buried in the average score. Therefore, the organization might need to experiment a bit with different ways of simplifying the measures with the aim of providing one that best reflects achievement of the key objective.

Adapt

An organization's circumstances and strategies tend to change over time. Since goals, objectives, and measures need to tie directly to the organization's strategy, they should be changed as well when the strategy changes. For example, many U.S. automakers set out to dominate certain car and truck segments on the basis of vehicle features and price, not fuel efficiency. However, the recent fluctuations in oil prices gave rise to a market for more fuel-efficient vehicles. Unless the automakers set some aggressive fuel efficiency objectives for their new models, however, that is unlikely to be a differentiating feature of their cars and trucks. Adaptation of metrics is not the same as adding more or other metrics. In the spirit of fewer and simpler measures, managers should be asked to take a measure

away if they plan to introduce a new one.

Base Objectives on Facts

Finally, while goals may sometimes be general (such as performance goals in which managers simply state, *grow profits 10%*), the objectives and the metrics that gauge them should be quite specific and set based on facts and information, not intuition. A fact-based decision-making process starts with the compilation of relevant data about the particular goal. This in turn typically requires that the organization invest in information and in information-gathering capabilities.

For example, early in Jack Welch's tenure as CEO of GE, he set out a financial goal for the company of improving its *return on assets* (ROA), a measure of financial efficiency. One of the underlying determinants of ROA is inventory-turn, that is, how many times a firm can sell its stock of inventory in a given year. So, to improve ROA, a firm will likely have to also improve its inventory turns. One of GE's divisions manufactured refrigerators and turned its inventory seven times per year. What objective should Welch set for the refrigerator division's inventory turn? Instead of simply guessing, Welch sent a team of managers into another manufacturing firm (with permission of the firm's owners and top managers) in a

Figure 23 Steve Jobs Announcing Apple's Release of the iPhone – Source:
http://www.flickr.com/photos/51035629850@N01/522131312

different industry and learned that it was achieving turns of 12 to 17 times per year! Armed with this information, Welch could then set a clear and fact-based inventory-turn objective for that division, which in turn supported one   of the overarching financial goals he had set for GE.

Fact-based objectives typically can be clearer and more precise the shorter the relative time to their

achievement. For instance, a firm can likely predict next week's sales better than next year's sales. This means that goals and objectives for the future will likely need to be more specific when they are fairly current but will necessarily be less precise down the road.

The main challenge with fact-based objectives is that many firms find future opportunities in markets where there is not an existing set of customers today. For instance, before Apple released the iPhone, how big would you expect that market to be? There certainly were no facts, aside from general demographics and the technology, to set fact-based goals and objectives. In such cases, firms will need to conduct "experiments" where they learn about production and market characteristics, such that the first goals and objectives will be related to learning and growth, with more specific fact-based objectives to follow.

Otherwise, firms will only take action in areas where there are data and facts, which clearly creates a paradox for managers if the future is uncertain in their particular industry.

KEY TAKEAWAYS

- This section described eight general characteristics of good goals, objectives, and measures.
- Fewer and simpler goals and objectives are better than more and complex ones.
- Similarly, goals and objectives should be tied to strategy and, ultimately, to vision and mission, in a cascading pattern so that objectives and measures support the goals they are aiming to help achieve.
- Goals and objectives must also change with the times and, wherever possible, be anchored in facts or fact-finding and learning.

Chapter 5 Review Questions

Multiple Choice:

1. The broader principle behind _____ is to make sure that everybody within the organization has a clear understanding of the organizations goals.
    a. balanced scorecard
    b. management by objective
    c. performance management

2. The principle behind _____ is a framework designed to translate an organizations mission and vision statements and overall business strategy into specific, quantifiable goals and objectives.
    a. balanced scorecard
    b. management by objective
    c. performance management

3. From Figure 2, the benefit of _____ is that goals and objectives are consistent with the strategy, vision, and mission.
    a. cascade goals into objectives
    b. less is more
    c. take stakeholders into account
    d. tie measures to drivers of success

Short Answer:

- What four things do goals and objectives serve?

- Explain what a "Balanced Scorecard" is.

Chapter 6 Organizational Structure and Change

Reading this chapter will help you do the following:

1. Define organizational structure and its basic elements.

2. Describe matrix, boundaryless, and learning organizations.

3. Describe why and how organizations change.

4. Understand reasons why people resist change, and strategies for planning and executing change effectively.

5. Build your own organizational design skills.

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 24 The P-O-L-C Framework

Creating or enhancing the structure of an organization defines managers' Organizational Design task. Organizational design is one of the three tasks that fall into the organizing function in the planning-organizing-leading-controlling (P-O-L-C) framework. As much as individual- and team-level factors influence work attitudes and behaviors, the organization's structure can be an even more powerful influence over employee actions.

Organizational Structure

LEARNING OBJECTIVES
1. Explain the roles of formalization, centralization, levels in the hierarchy, and

departmentalization in employee attitudes and behaviors.

2. Describe how the elements of organizational structure can be combined to create mechanistic and organic structures.

3. Understand the advantages and disadvantages of mechanistic and organic structures for organizations.

Organizational structure refers to how individual and team work within an organization are coordinated. To achieve organizational goals and objectives, individual work needs to be coordinated and managed. Structure is a valuable tool in achieving coordination, as it specifies reporting relationships (who reports to whom), delineates formal communication channels, and describes how separate actions of individuals are linked together. Organizations can function within a number of different structures, each possessing distinct advantages and disadvantages. Although any structure that is not properly managed will be plagued with issues, some organizational models are better equipped for particular environments and tasks.

Building Blocks of Structure

What exactly do we mean by organizational structure? Which elements of a company's structure make a difference in how we behave and how work is coordinated? We will review four aspects of structure that have been frequently studied in the literature: centralization, formalization, hierarchical levels, and departmentalization. We view these four elements as the building blocks, or elements, making up a company's structure. Then we will examine how these building blocks come together to form two different configurations of structures.

Centralization

Centralization is the degree to which decision-making authority is concentrated at higher levels in an organization. In centralized companies, many important decisions are made at higher levels of the hierarchy, whereas in decentralized companies, decisions are made and problems are solved at lower levels by employees who are closer to the problem in question.

As an employee, where would you feel more comfortable and productive? If your answer is "decentralized," you are not alone. Decentralized companies give more authority to lower-level employees, resulting in a sense of empowerment. Decisions can be made more quickly, and employees often believe that decentralized companies provide greater levels of procedural fairness to employees. Job candidates are more likely to be attracted to decentralized organizations. Because centralized organizations assign decision-making responsibility to higher-level managers, they place greater demands on the judgment capabilities of CEOs and other high-level managers.

Many companies find that the centralization of operations leads to inefficiencies in decision making. For example, in the 1980s, the industrial equipment manufacturer Caterpillar suffered the consequences of centralized decision making. At the time, all pricing decisions were made in the corporate headquarters in Peoria, Illinois. This meant that when a sales representative working in Africa wanted to give a discount on a product, they needed to check with headquarters. Headquarters did not always have accurate or timely information about the subsidiary markets to make an effective decision. As a result, Caterpillar was at a disadvantage against competitors such as the Japanese firm Komatsu. Seeking to overcome this centralization paralysis, Caterpillar underwent several dramatic rounds of reorganization in the 1990s and 2000s[114].

However, centralization also has its advantages. Some employees are more comfortable in an organization where their manager confidently gives instructions and makes decisions. Centralization may also lead to more efficient operations, particularly if the company is operating in a stable environment[115]. In fact,

Figure 25 Changing their decision-making approach to a more decentralized style has helped Caterpillar compete at the global level. Source: http://commons.wikimedia.org/wiki/Image:Bauma_2007_Buldozer_Caterpillar_2.jpg

organizations can suffer from extreme decentralization. For example, some analysts believe that the Federal Bureau of Investigation (FBI) experiences some problems because all its structure and systems are based on the assumption that crime needs to be investigated *after* it happens. Over time, this assumption led to a situation where, instead of following an overarching strategy, each FBI unit is completely decentralized and field agents determine how investigations should be pursued. It has been argued that due to the change in the nature of crimes, the FBI needs to gather accurate intelligence *before* a crime is committed; this requires more centralized decision making and strategy development[116].

Hitting the right balance between decentralization and centralization is a challenge for many organizations. At the Home Depot, the retail giant with over 2,000 stores across the United States, Canada, Mexico, and China, one of the major changes instituted by former CEO Bob Nardelli was to centralize most of its operations. Before Nardelli's arrival in 2000, Home Depot store managers made a number of decisions autonomously and each store had an entrepreneurial culture. Nardelli's changes initially saved the company a lot of money. For example, for a company of that size, centralizing purchasing operations led to big cost savings because the company could negotiate important discounts from suppliers. At the same time, many analysts think that the centralization went too far, leading to the loss of the service-oriented culture at the stores. Nardelli was ousted after seven years[117].

Formalization

Formalization is the extent to which an organization's policies, procedures, job descriptions, and rules are written and explicitly articulated. Formalized structures are those in which there are many written rules and regulations. These structures control employee behavior using written rules, so that employees have little autonomy to decide on a case-by-case basis. An advantage of formalization is that it makes employee behavior more predictable. Whenever a problem at work arises, employees know to turn to a handbook or a procedure guideline. Therefore, employees respond to problems in a similar way across the organization; this leads to consistency of behavior.

While formalization reduces ambiguity and provides direction to employees, it is not without disadvantages. A high degree of formalization may actually lead to reduced innovativeness because employees are used to behaving in a certain manner. In fact, strategic decision making in such organizations often occurs only when there is a crisis. A formalized structure is associated with reduced motivation and job satisfaction as well as a slower pace of decision making.[118]

The service industry is particularly susceptible to problems associated with high levels of formalization. Sometimes employees who are listening to a customer's problems may need to take action, but the answer may not be specified in any procedural guidelines or rulebook. For example, while a handful of airlines such as Southwest do a good job of empowering their employees to handle complaints, in many airlines, lower-level employees have limited power to resolve a customer problem and are constrained by stringent rules that outline a limited number of acceptable responses.

Hierarchical Levels

Another important element of a company's structure is the number of levels it has in its hierarchy. Keeping the size of the organization constant, tall structures have several layers of management between frontline employees and the top level, while flat structures consist of only a few layers. In tall structures, the number of employees reporting to each manager tends to be smaller, resulting in greater opportunities for managers to supervise and monitor employee activities. In contrast, flat structures involve a larger number of employees reporting to each manager. In such a structure, managers will be relatively unable to provide close supervision, leading to greater levels of freedom of action for each employee. Research indicates that flat organizations provide greater need satisfaction for employees and greater levels of self-actualization[119]. At the same time, there may be some challenges associated with flat structures. Research shows that when managers supervise a large number of employees, which is more likely to happen in flat structures, employees experience greater levels of role ambiguity—the confusion that results from being unsure of what is expected of a worker on the

job[120]. This is especially a disadvantage for employees who need closer guidance from their managers. Moreover, in a flat structure, advancement opportunities will be more limited because there are fewer management layers. Finally, while employees report that flat structures are better at satisfying their higher-order needs such as self-actualization, they also report that tall structures are better at satisfying security needs of

Figure 26 Companies such as IKEA, the Swedish furniture manufacturer and retailer, are successfully using flat structures within stores to build an employee attitude of job involvement and ownership. Source: http://commons.wikimedia.org/wiki/Image:Ikea_almhult.j p

employees[121]. Because tall structures are typical of large and well-established companies, it is possible that when working in such organizations employees feel a greater sense of job security.

Departmentalization

Organizational structures differ in terms of departmentalization, which is broadly categorized as either functional or divisional.

Organizations using *functional structures* group jobs based on similarity in functions. Such structures may have departments such as marketing, manufacturing, finance, accounting, human resources, and information technology. In these structures, each person serves a specialized role and handles large volumes of transactions. For example, in a functional structure, an employee in the marketing department may serve as an event planner, planning promotional events for all the products of the company.

In organizations using *divisional structures*, departments represent the unique products, services, customers, or geographic locations the company is serving. Thus each unique product or service the company is producing will have its own department. Within each department, functions such as marketing, manufacturing,

and other roles are replicated. In these structures, employees act like generalists as opposed to specialists. Instead of performing specialized tasks, employees will be in charge of performing many different tasks in the service of the product. For example, a marketing employee in a company with a divisional structure may be in charge of planning promotions, coordinating relations with advertising agencies, and planning and conducting marketing research, all for the particular product line handled by his or her division.

In reality, many organizations are structured according to a mixture of functional and divisional forms. For example, if the company has multiple product lines, departmentalizing by product may increase innovativeness and reduce response times. Each of these departments may have dedicated marketing, manufacturing, and customer service employees serving the specific product; yet, the company may also find that centralizing some operations and retaining the functional structure makes sense and is more cost effective for roles such as human resources management and information technology. The same organization may also create geographic departments if it is serving different countries.

Each type of departmentalization has its advantages. Functional structures tend to be effective when an organization does not have a large number of products and services requiring special attention. When a company has a diverse product line, each product will have unique demands, deeming divisional (or product-specific) structures more useful for promptly addressing customer demands and anticipating market changes. Functional structures are more effective in stable environments that are slower to change. In contrast, organizations using product divisions are more agile and can perform better in turbulent environments. The type of employee who will succeed under each structure is also different.

Research shows that when employees work in product divisions in turbulent environments, because activities are diverse and complex, their performance depends on their general mental abilities.[122]
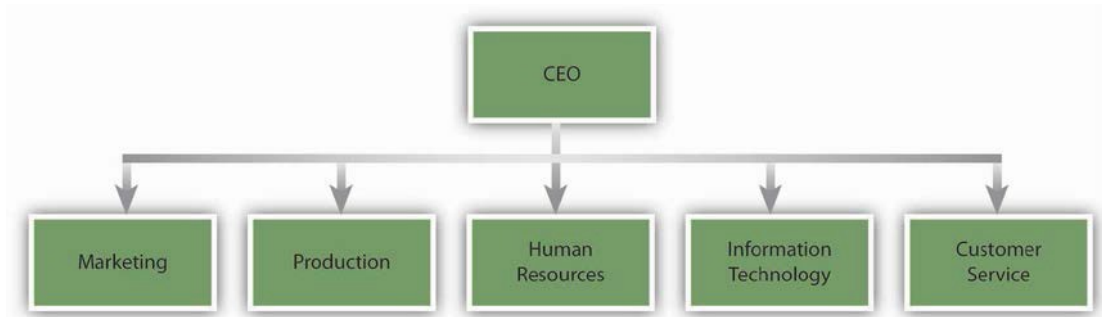
Figure 27 An Example of a Pharmaceutical Company with a Functional Departmentalization Structure
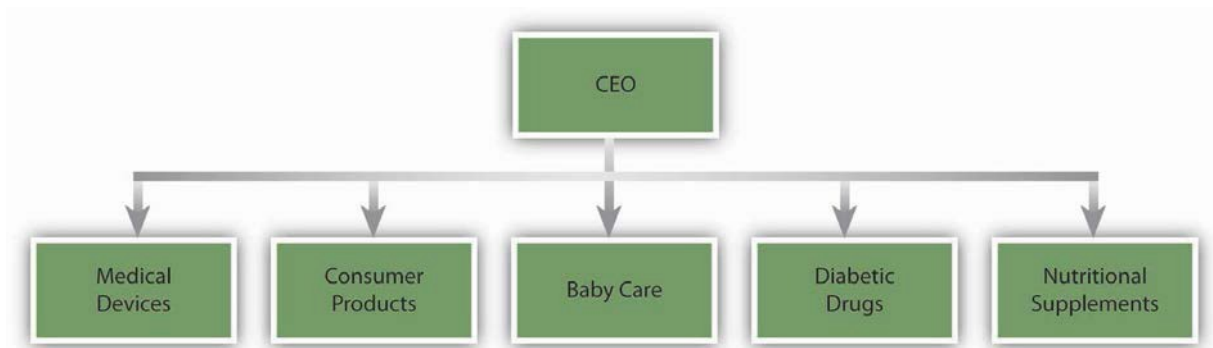

Figure 28 An Example of a Pharmaceutical Company with a Divisional Departmentalization Structure

Two Configurations: Mechanistic and Organic Structures

The different elements making up organizational structures in the form of formalization, centralization, number of levels in the hierarchy, and departmentalization often coexist. As a result, we can talk about two configurations of organizational structures, depending on how these elements are arranged.

Mechanistic structures are those that resemble a bureaucracy. These structures are highly formalized and centralized. Communication tends to follow formal channels and employees are given specific job descriptions delineating their roles and responsibilities. Mechanistic organizations are often rigid and resist change, making them unsuitable for innovativeness and taking quick action. These forms have the downside of inhibiting entrepreneurial action and discouraging the use of individual initiative on the part of employees. Not only do mechanistic structures have disadvantages for innovativeness, but they also limit individual autonomy and self-determination, which will likely lead to lower levels of intrinsic motivation on the

job[123].

Despite these downsides, however, mechanistic structures have advantages when the environment is more stable. The main advantage of a mechanistic structure is its efficiency. Therefore, in organizations that are trying to maximize efficiency and minimize costs, mechanistic structures provide advantages. For example, McDonald's has a famously bureaucratic structure where employee jobs are highly formalized, with clear lines of communication and specific job descriptions. This structure is an advantage for them because it allows McDonald's to produce a uniform product around the world at minimum cost. Mechanistic structures can also be advantageous when a company is new. New businesses often suffer from a lack of structure, role ambiguity, and uncertainty. The presence of a mechanistic structure has been shown to be related to firm performance in new ventures[124].

In contrast to mechanistic structures, organic structures are flexible and decentralized, with low levels of formalization. In Organizations with an organic structure, communication lines are more fluid and flexible. Employee job descriptions are broader and employees are asked to perform duties based on the specific needs of the organization at the time as well as their own expertise levels. Organic structures tend to be related to higher levels of job satisfaction on the part of employees. These structures are conducive to entrepreneurial behavior and innovativeness[125]. An example of a company that has an organic structure is the diversified technology company 3M. The company is strongly committed to decentralization.   At 3M, there are close to 100 profit centers, with each division feeling like a small company. Each division manager acts autonomously and is accountable for his or her actions. As operations within each division get too big and a product created by a division becomes profitable, the operation is spun off to create a separate business unit. This is done to protect the agility of the company and the small- company atmosphere[126].

- The degree to which a company is centralized and formalized, the number of levels in the company hierarchy, and the type of departmentalization the company uses are key elements of a company's structure.

- These elements of structure affect the degree to which the company is effective and innovative as well as employee attitudes and behaviors at work.

- These elements come together to create mechanistic and organic structures.

- Mechanistic structures are rigid and bureaucratic and help companies achieve efficiency, while organic structures are decentralized, flexible, and aid companies in achieving innovativeness.

Contemporary Forms of Organizational Structures

LEARNING OBJECTIVES

1. Explain what a matrix structure is and the challenges of working in a structure such as this.
2. Define boundaryless organizations.
3. Define learning organizations, and list the steps organizations can take to become learning organizations.

For centuries, technological advancements that affected business came in slow waves. Over 100 years passed between the invention of the first reliable steam engine and the first practical internal combustion engine. During these early days of advancement, communication would often go hand in hand with transportation. Instead of delivering mail hundreds of miles by horse, messages could be

transported more quickly by train and then later by plane. Beginning in the 1900s, the tides of change began to rise much more quickly. From the telegraph to the telephone to the computer to the Internet, each advancement brought about a need for an organization's structure to adapt and change.

Business has become global, moving into new economies and cultures. Previously nonexistent industries, such as those related to high technology, have demanded flexibility by organizations in ways never before seen. The diverse and complex nature of the current business environment has led to the emergence of several types of organizational structures. Beginning in the 1970s, management experts began to propose organizational designs that they believed were better adapted to the needs of the emerging business environment. Each structure has unique qualities to help businesses handle their particular environment.

Matrix Organizations

Matrix organizations have a design that combines a traditional functional structure with a product structure. Instead of completely switching from a product-based structure, a company may use a matrix structure to balance the benefits of product-based and traditional functional structures. Specifically, employees reporting to department managers are also pooled together to form project or product teams. As a result, each person reports to a department manager as well as a project or product manager. In a matrix structure, product managers have control and say over product-related matters, while department managers have authority over matters related to company policy. Matrix structures are created in response to uncertainty and dynamism of the environment and the need to give particular attention to specific products or projects. Using the matrix structure as opposed to product departments may increase communication and cooperation among departments because project managers will need to coordinate their actions with those of department managers. In fact, research shows that matrix structure increases the frequency of informal and formal communication within the organization.[127] Matrix structures also have the benefit of providing quick responses to technical problems and customer demands. The existence of a

project manager keeps the focus on the product or service provided.
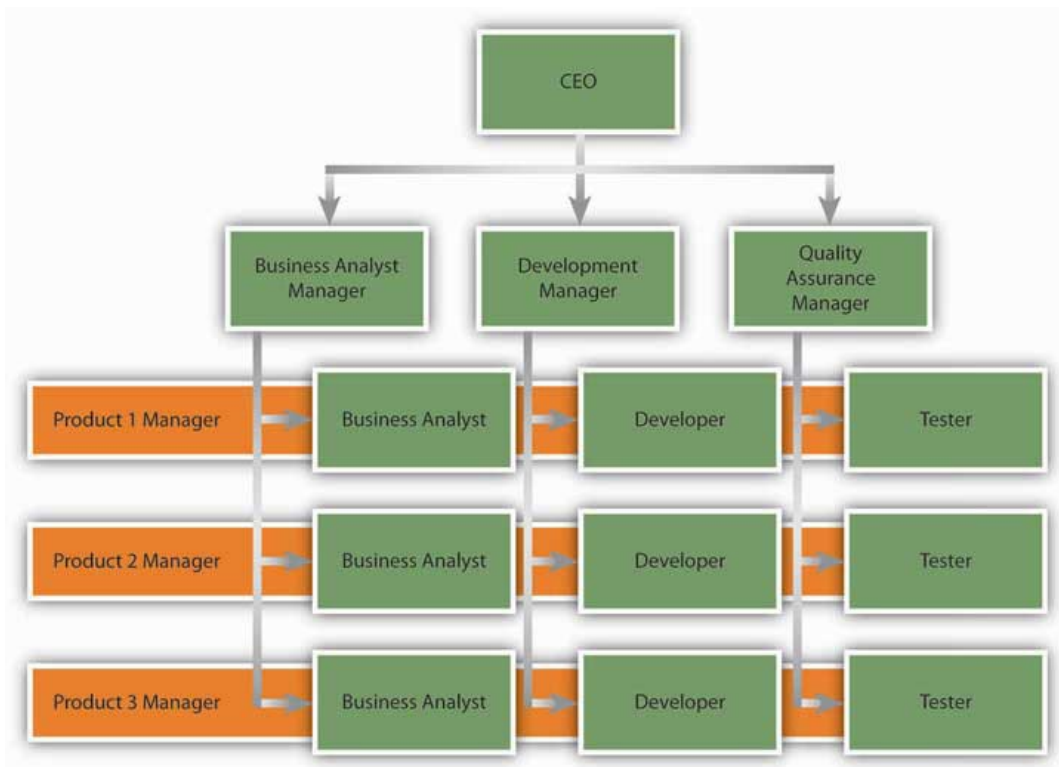

Figure 29 An example of a matrix structure at a software development company. Business analysts, developers, and testers each report to a functional department manager and to a project manager simultaneously.

Despite these potential benefits, matrix structures are not without costs. In a matrix, each employee reports to two or more managers. This situation is ripe for conflict. Because multiple managers are in charge of guiding the behaviors of each employee, there may be power struggles or turf wars among managers. As managers are more interdependent compared to a traditional or product-based structure, they will need to spend more effort coordinating their work. From the employee's perspective, there is potential for interpersonal conflict with team members as well as with leaders. The presence of multiple leaders may create role ambiguity or, worse, role conflict—being given instructions or objectives that cannot all be met because they are mutually exclusive. The necessity to work with a team consisting of employees with different functional backgrounds increases the potential for task conflict at work[128]. Solving these problems requires a great level of patience and proactivity on the part of the employee.

The matrix structure is used in many information technology companies engaged in software development. Sportswear manufacturer Nike is another company that uses the matrix organization successfully. New product introduction is a task shared by regional managers and product managers. While product managers are in charge of deciding how to launch a product, regional managers are allowed to make modifications based on the region.[129]

Boundaryless Organizations

Boundaryless organization is a term coined by Jack Welch during his tenure as CEO of GE; it refers to an organization that eliminates traditional barriers between departments as well as barriers between the organization and the external environment[130]. Many different types of boundaryless organizations exist. One form is the modular organization, in which all nonessential functions are outsourced. The idea behind this format is to retain only the value-generating and strategic functions in-house, while the rest of the operations are outsourced to many suppliers. An example of a company that does this is Toyota. By managing relationships with hundreds of suppliers, Toyota achieves efficiency and quality in its operations. Strategic alliances constitute another form of boundaryless design. In this form, similar to a joint venture, two or more companies find an area of collaboration and combine their efforts to create a partnership that is beneficial for both parties. In the process, the traditional boundaries between two competitors may be broken. As an example, Starbucks formed a highly successful partnership with PepsiCo to market its Frappuccino cold drinks. Starbucks has immediate brand-name recognition in this cold coffee drink, but its desire to capture shelf space in supermarkets required marketing savvy and experience that Starbucks did not possess at the time. By partnering with PepsiCo, Starbucks gained an important head start in the marketing and distribution of this product. Finally, boundaryless organizations may involve eliminating the barriers separating employees; these may be intangible barriers, such as traditional management layers, or actual physical barriers, such as walls between different departments. Structures such as self-managing teams create an environment where employees

coordinate their efforts and change their own roles to suit the demands of the situation, as opposed to insisting that something is "not my job.[131]"

Learning Organizations

A learning organization is one whose design actively seeks to acquire knowledge and change behavior as a result of the newly acquired knowledge. In learning organizations, experimenting, learning new things, and reflecting on new knowledge are the norms. At the same time, there are many procedures and systems in place that facilitate learning at all organization levels.

In learning organizations, experimentation and testing potentially better operational methods are encouraged. This is true not only in response to environmental threats but also as a way of identifying future opportunities. 3M is one company that institutionalized experimenting with new ideas in the form of allowing each engineer to spend one day a week working on a personal project. At IBM, learning is encouraged by taking highly successful business managers and putting them in charge of emerging business opportunities (EBOs). IBM is a company that has no difficulty coming up with new ideas, as evidenced by the number of patents it holds. Yet commercializing these ideas has been a problem in the past because of an emphasis on short-term results. To change this situation, the company began experimenting with the idea of EBOs. By setting up a structure where failure is tolerated and risk taking is encouraged, the company took a big step toward becoming a learning organization.[132]

Learning organizations are also good at learning from experience—their own or a competitor's. To learn from past mistakes, companies conduct a thorough analysis of them. Some companies choose to conduct formal retrospective meetings to analyze the challenges encountered and areas for improvement. To learn from others, these companies vigorously study competitors, market leaders in different industries, clients, and customers. By benchmarking against industry best practices, they constantly look for ways of improving their own operations. Learning organizations are also good at studying customer habits to generate

ideas. For example, Xerox uses anthropologists to understand and gain insights to how customers are actually using their office products[133]. By using these techniques, learning organizations facilitate innovation and make it easier to achieve organizational change.

> ## KEY TAKEAWAYS
>
> - The changing environment of organizations creates the need for newer forms of organizing.
>
> - Matrix structures are a cross between functional and product-based divisional structures. They facilitate information flow and reduce response time to customers but have challenges because each employee reports to multiple managers.
>
> - Boundaryless organizations blur the boundaries between departments or the boundaries between the focal organization and others in the environment. These organizations may take the form of a modular organization, strategic alliance, or self- managing teams.
>
> - Learning organizations institutionalize experimentation and benchmarking.

Organizational Change

LEARNING OBJECTIVES

1. Identify the external forces creating change on the part of organizations.
2. Understand how organizations respond to changes in the external environment.
3. Understand why people resist change.

Why Do Organizations Change?

Organizational change is the movement of an organization from one state of affairs to another. A change in the environment often requires change within the organization operating within that environment. Change in almost any aspect of a

company's operation can be met with resistance, and different cultures can have different reactions to both the change and the means to promote the change. To better facilitate necessary changes, several steps can be taken that have been proved to lower the anxiety of employees and ease the transformation process. Often, the simple act of including employees in the change process can drastically reduce opposition to new methods. In some organizations, this level of inclusion is not possible, and instead organizations can recruit a small number of opinion leaders to promote the benefits of coming changes.

Organizational change can take many forms. It may involve a change in a company's structure, strategy, policies, procedures, technology, or culture. The change may be planned years in advance or may be forced on an organization because of a shift in the environment. Organizational change can be radical and swiftly alter the way an organization operates, or it may be incremental and slow. In any case, regardless of the type, change involves letting go of the old ways in which work is done and adjusting to new ways. Therefore, fundamentally, it is a process that involves effective people management.

Managers carrying out any of the P-O-L-C functions often find themselves faced with the need to manage organizational change effectively. Oftentimes, the planning process reveals the need for a new or improved strategy, which is then reflected in changes to tactical and operational plans. Creating a new organizational design (the organizing function) or altering the existing design entails changes that may affect from a single employee up to the entire organization, depending on the scope of the changes. Effective decision making, a Leadership task, takes into account the change-management implications of decisions, planning for the need to manage the implementation of decisions. Finally, any updates to controlling systems and processes will potentially involve changes to employees' assigned tasks and performance assessments, which will require astute change management skills to implement. In short, change management is an important leadership skill that spans the entire range of P-O- L-C functions.

Workplace Demographics

Organizational change is often a response to changes to the environment. For example, agencies that monitor workplace demographics such as the U.S. Department of Labor and the Organization for Economic Co-operation and Development have reported that the average age of the U.S. workforce will increase as the baby boom generation nears retirement age and the numbers of younger workers are insufficient to fill the gap[134].

What does this mean for companies? Organizations may realize that as the workforce gets older, the types of benefits workers prefer may change. Work arrangements such as flexible work hours and job sharing may become more popular as employees remain in the workforce even after retirement. It is also possible that employees who are unhappy with their current work situation will choose to retire, resulting in a sudden loss of valuable knowledge and expertise in organizations. Therefore, organizations will have to devise strategies to retain these employees and plan for their retirement. Finally, a critical issue is finding ways of dealing with age-related stereotypes which act as barriers in the retention of these employees.

Technology

Sometimes change is motivated by rapid developments in technology. Moore's law (a prediction by Gordon Moore, cofounder of Intel) dictates that the overall complexity of computers will double every 18 months with no increase in cost[135]. Such change is motivating corporations to change their technology rapidly. Some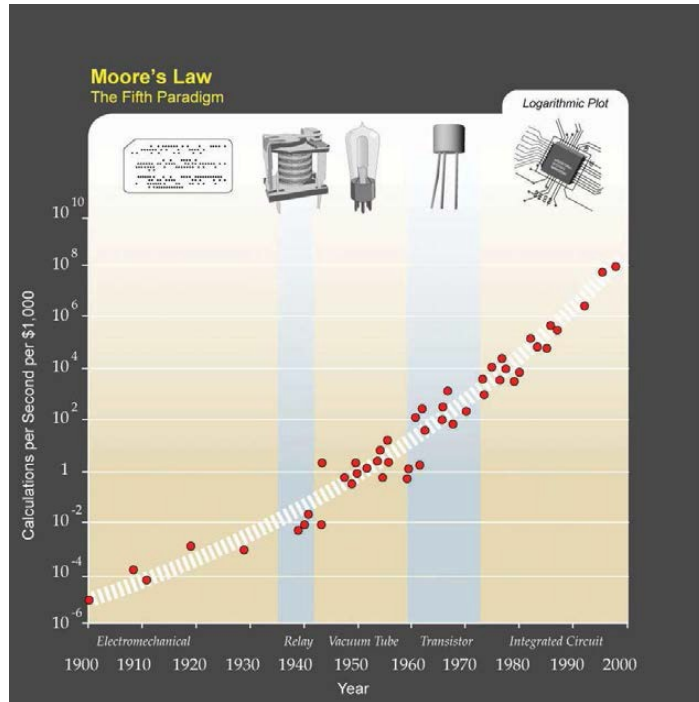times technology produces such profound developments that companies struggle to adapt. A recent example is from the music industry. When music CDs were

Figure 30 Kurzweil expanded Moore's law from integrated circuits to earlier transistors, vacuum tubes, relays, and electromechanical computers to show that his trend holds there as well. Source: http://upload.wikimedia.org/wikipedia/commons/c/c5/PPTMooresLaw ai.jpg

first introduced in the 1980s, they were substantially more appealing than the traditional LP vinyl records. Record companies were easily able to double the prices, even though producing CDs cost a fraction of what it cost to produce LPs. For decades, record-producing companies benefited from this status quo. Yet when peer-to-peer file sharing through software such as Napster and Kazaa threatened the core of their business, companies in the music industry found themselves completely unprepared for such disruptive technological changes. Their first response was to sue the users of file-sharing software, sometimes even underage kids. They also kept looking for a technology that would make it impossible to copy a CD or DVD, which has yet to emerge. Until Apple's iTunes came up with a new way to sell music online, it was doubtful that consumers would ever be willing to pay for music that was otherwise available for free (albeit illegally so). Only time will tell if the industry will be able to adapt to the changes forced on it.[136]

Globalization

Globalization is another threat and opportunity for organizations, depending on their ability to adapt to it. Because of differences in national economies and standards of living from one country to another, organizations in developed countries are finding that it is often cheaper to produce goods and deliver services in less developed countries. This has led many companies to outsource (or "offshore") their manufacturing operations to countries such as China and Mexico. In the 1990s, knowledge work was thought to be safe from outsourcing, but in the 21st century we are also seeing many service operations moved to places with cheaper wages. For example, many companies have outsourced software development to India, with Indian companies such as Wipro and Infosys emerging as global giants. Given these changes, understanding how to manage a global workforce is a necessity. Many companies realize that outsourcing forces them to operate in an institutional environment that is radically different from what they are used to at home. Dealing with employee stress resulting from jobs being moved overseas, retraining the workforce, and learning to compete with a global workforce on a global scale are changes companies are trying to come to grips with.

Changes in the Market Conditions

Market changes may also create internal changes as companies struggle to adjust. For example, as of this writing, the airline industry in the United States is undergoing serious changes. Demand for air travel was reduced after the September 11 terrorist attacks. At the same time, the widespread use of the Internet to book plane travels made it possible to compare airline prices much more efficiently and easily, encouraging airlines to compete primarily based on cost. This strategy seems to have backfired when coupled with the dramatic increases in the cost of fuel that occurred beginning in 2004. As a result, by mid-2008, airlines were cutting back on amenities that had formerly been taken for granted for decades, such as the price of a ticket including meals, beverages, and checking luggage. Some airlines, such as Delta and Northwest Airlines, merged to

stay in business.

How does a change in the environment create change within an organization?

Environmental change does not automatically change how business is done. Whether the organization changes or not in response to environmental challenges and threats depends on the decision makers' reactions to what is happening in the environment.

Growth

It is natural for once small start-up companies to grow if they are successful. An example of this growth is the evolution of the Widmer Brothers Brewing Company, which started as two brothers brewing beer in their garage to becoming the 11th largest brewery in the United States. This growth happened over time as the popularity of their key product—Hefeweizen—grew in popularity and the company had to expand to meet demand growing from the two founders to the 11th

Figure 31 In 1984, brothers Kurt (on the left) and Rob Widmer (on the right) founded Widmer Brothers, which has merged with another company to become the 11th largest brewery in the United States. Photo and permission given by Widmer Brothers Brewing Co.

largest brewery in the United States by 2008. In 2007, Widmer Brothers merged with Redhook Ale Brewery. Anheuser-Busch continues to have a minority stake in both beer companies. So, while 50% of all new small businesses fail in their first year. Those that succeed often evolve into large, complex organizations over time.[137]

Poor Performance

Change can also occur if the company is performing poorly and if there is a perceived threat from the environment. In fact, poorly performing companies often find it easier to change compared with successful companies. Why? High

performance actually leads to overconfidence and inertia. As a result, successful companies often keep doing what made them successful in the first place. When it comes to the relationship between company performance and organizational change, the saying "nothing fails like success" may be fitting. For example, Polaroid was the number one producer of instant films and cameras in 1994. Less than a decade later, the company filed for bankruptcy, unable to adapt to the rapid advances in one-hour photo development and digital photography technologies that were sweeping the market. Successful companies that manage to change have special practices in place to keep the organization open to changes. For example, Finnish cell phone maker Nokia finds that it is important to periodically change the perspective of key decision makers. For this purpose, they rotate heads of businesses to different posts to give them a fresh perspective. In addition to the success of a business, change in a company's upper-level management is a motivator for change at the organization level. Research shows that long-tenured CEOs are unlikely to change their formula for success. Instead, new CEOs and new top management teams create change in a company's culture and structure.[138]

Resistance to Change

Changing an organization is often essential for a company to remain competitive. Failure to change may influence the ability of a company to survive. Yet employees do not always welcome changes in methods. According to a 2007 survey conducted by the Society for Human Resource Management (SHRM), employee resistance to change is one of the top reasons change efforts fail. In fact, reactions to organizational change may range from resistance to compliance to enthusiastic support of the change, with the latter being the exception rather than the norm[139].
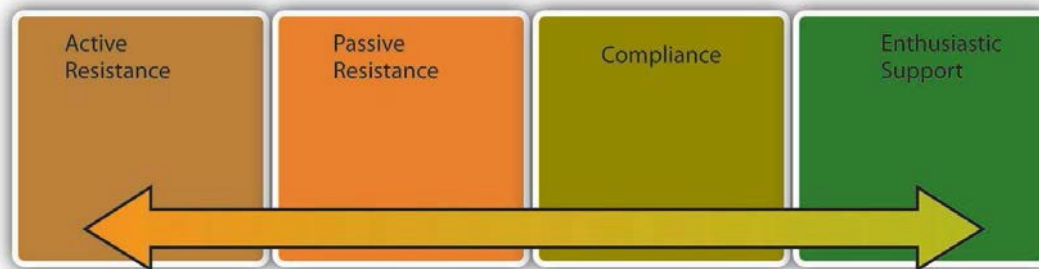
Figure 32 Reactions to change may take many forms.

Active resistance is the most negative reaction to a proposed change attempt. Those who engage in active resistance may sabotage the change effort and be outspoken objectors to the new procedures. In contrast, passive resistance involves being disturbed by changes without necessarily voicing these opinions. Instead, passive resisters may dislike the change quietly, feel stressed and unhappy, and even look for a new job without necessarily bringing their concerns to the attention of decision makers. Compliance, however, involves going along with proposed changes with little enthusiasm. Finally, those who show enthusiastic support are defenders of the new way and actually encourage others around them to give support to the change effort as well.

To be successful, any change attempt will need to overcome resistance on the part of employees. Otherwise, the result will be loss of time and energy as well as an inability on the part of the organization to adapt to the changes in the environment and make its operations more efficient. Resistance to change also has negative consequences for the people in question. Research shows that when people react negatively to organizational change, they experience negative emotions, use sick time more often, and are more likely to voluntarily leave the company[140]. These negative effects can be present even when the proposed change clearly offers benefits and advantages over the status quo. The following is a dramatic example of how resistance to change may prevent improving the status quo. Have you ever wondered why the keyboards we use are shaped the way they are? The QWERTY keyboard, named after the first six letters in the top row, was actually engineered to slow us down. When the typewriter was first invented in the 19th century, the

first prototypes of the keyboard would jam if the keys right next to each other were hit at the same time. Therefore, it was important for manufacturers to slow typists down. They achieved this by putting the most commonly used letters to the left-hand side and scattering the most frequently used letters all over the keyboard. Later, the issue of letters being stuck was resolved. In fact, an alternative to the QWERTY developed in the 1930s by educational psychologist August Dvorak provides a much more efficient design and allows individuals to double traditional typing speeds. Yet the Dvorak keyboard never gained wide acceptance. The reasons? Large numbers of people resisted the change. Teachers and typists resisted because they would lose their specialized knowledge. Manufacturers resisted due to costs inherent in making the switch and the initial inefficiencies in the learning curve[141]. In short, the best idea does not necessarily win, and changing people requires understanding why they resist.

Why Do People Resist Change?

Disrupted Habits

People often resist change for the simple reason that change disrupts our habits. When you hop into your car for your morning commute, do you think about how you are driving? Most of the time probably not, because driving generally becomes an automated activity after a while. You may sometimes even realize that you have reached your destination without noticing the roads you used or having consciously thought about any of your body movements. Now imagine you drive for a living and even though you are used to driving an automatic car, you are forced to use a stick shift. You can most likely figure out how to drive a stick, but it will take time, and until you figure it out, you cannot drive on auto pilot. You will have to reconfigure your body movements and practice shifting until you become good at it. This loss of a familiar habit can make you feel clumsy; you may even feel that your competence as a driver is threatened. For this simple reason, people are sometimes surprisingly outspoken when confronted with simple changes such as updating to a newer version of a particular software or a change in their voice

mail system.

Personality

Some people are more resistant to change than others. Recall that one of the Big Five personality traits is Openness to Experience; obviously, people who rank high on this trait will tend to accept change readily. Research also shows that people who have a positive self-concept are better at coping with change, probably because those who have high self-esteem may feel that whatever the changes are, they are likely to adjust to it well and be successful in the new system. People with a more positive self-concept and those who are more optimistic may also view change as an opportunity to shine as opposed to a threat that is overwhelming. Finally, risk tolerance is another predictor of how resistant someone will be to stress. For people who are risk avoidant, the possibility of a change in technology or structure may be more threatening.[142]

Feelings of Uncertainty

Change inevitably brings feelings of uncertainty. You have just heard that your company is merging with another. What would be your reaction? Such change is often turbulent, and it is often unclear what is going to happen to each individual. Some positions may be eliminated. Some people may see a change in their job duties. Things may get better—or they may get worse. The feeling that the future is unclear is enough to create stress for people because it leads to a sense of lost control.[143]

Fear of Failure

People also resist change when they feel that their performance may be affected under the new system. People who are experts in their jobs may be less than welcoming of the changes because they may be unsure whether their success would last under the new system. Studies show that people who feel that they can perform well under the new system are more likely to be committed to the proposed change, while those who have lower confidence in their ability to perform after changes are less committed.[144]

Personal Impact of Change

It would be too simplistic to argue that people resist all change, regardless of its form. In fact, people tend to be more welcoming of change that is favorable to them on a personal level (such as giving them more power over others or change that improves quality of life such as bigger and nicer offices). Research also shows that commitment to change is highest when proposed changes affect the work unit with a low impact on how individual jobs are performed[145].

Prevalence of Change

Any change effort should be considered within the context of all the other changes that are introduced in a company. Does the company have a history of making short-lived changes? If the company structure went from functional to product-based to geographic to matrix within the past five years and the top management is in the process of going back to a functional structure again, a certain level of resistance is to be expected because employees are likely to be fatigued as a result of the constant changes. Moreover, the lack of a history of successful changes may cause people to feel skeptical toward the newly planned changes. Therefore, considering the history of changes in the company is important to understanding why people resist. Another question is, how big is the planned change? If the company is considering a simple switch to a new computer program, such as introducing Microsoft Access for database management, the change may not be as extensive or stressful compared with a switch to an enterprise resource planning (ERP) system such as SAP or PeopleSoft, which require a significant time commitment and can fundamentally affect how business is conducted.[146]

Perceived Loss of Power

One other reason people may resist change is that change may affect their power and influence in the organization. Imagine that your company moved to a more team-based structure, turning supervisors into team leaders. In the old structure, supervisors were in charge of hiring and firing all those reporting to them. Under the new system, this power is given to the team. Instead of monitoring the progress the

team is making toward goals, the job of a team leader is to provide support and mentoring to the team in general and ensure that the team has access to all resources to be effective. Given the loss in prestige and status in the new structure, some supervisors may resist the proposed changes even if it is better for the organization to operate around teams.

In summary, there are many reasons individuals resist change, which may prevent an organization from making important changes.

Is All Resistance Bad?

Resistance to change may be a positive force in some instances. In fact, resistance to change is a valuable feedback tool that should not be ignored. Why are people resisting the proposed changes? Do they believe that the new system will not work? If so, why not? By listening to people and incorporating their suggestions into the change effort, it is possible to make a more effective change. Some of a company's most committed employees may be the most vocal opponents of a change effort. They may fear that the organization they feel such a strong attachment to is being threatened by the planned change effort and the change will ultimately hurt the company. In contrast, people who have less loyalty to the organization may comply with the proposed changes simply because they do not care enough about the fate of the company to oppose the changes. As a result, when dealing with those who resist change, it is important to avoid blaming them for a lack of loyalty.[147]

Planning and Executing Change Effectively

LEARNING OBJECTIVES

1. Describe Lewin's three-stage model of planned change.
2. Describe how organizations may embrace continuous change.

How do you plan, organize, and execute change effectively? Some types of change, such as mergers, often come with job losses. In these situations, it is important to remain fair and ethical while laying off otherwise exceptional employees. Once change has occurred, it is vital to take any steps necessary to reinforce the new system. Employees can often require continued support well after an organizational change. One of the most useful frameworks in this area is the three-stage model of planned change developed in the 1950s by psychologist Kurt Lewin[148]. This model assumes that change will encounter resistance. Therefore, executing change without prior preparation is likely to lead to failure. Instead,
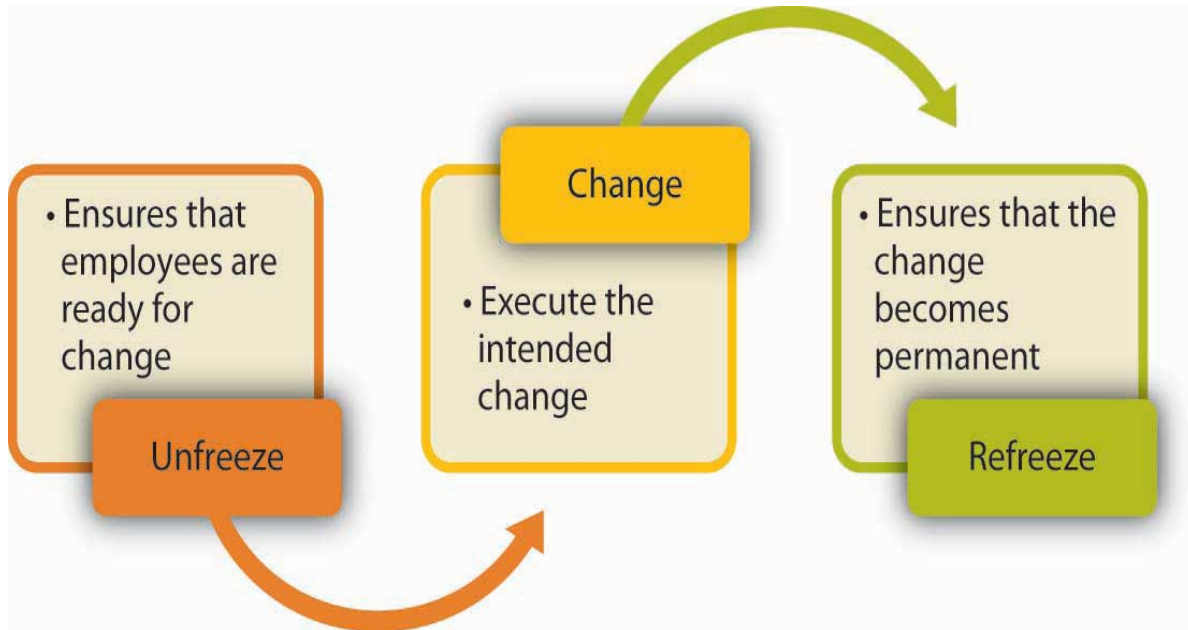
Figure 33 Lewin's Three-Stage Process of Change

organizations should start with unfreezing, or making sure that organizational members are ready for and receptive to change. This is followed by change, or executing the planned changes. Finally, refreezing involves ensuring that change becomes permanent and the new habits, rules, or procedures become the norm.

Unfreezing Before Change

Many change efforts fail because people are insufficiently prepared for change. When employees are not prepared, they are more likely to resist the change effort and less likely to function effectively under the new system. What can organizations do before change to prepare employees? There are a number of things that are important at this stage.

Communicating a Plan for Change

Do people know what the change entails, or are they hearing about the planned changes through the grapevine or office gossip? When employees know what is going to happen, when, and why, they may feel more comfortable. Research shows that those who have more complete information about upcoming changes are more committed to a change effort[149]. Moreover, in successful change efforts, the leader not only communicates a plan but also an overall vision for the

change[150]. When this vision is exciting and paints a picture of a future that employees would be proud to be a part of, people are likely to be more committed to change. Ensuring that top management communicates with employees about the upcoming changes also has symbolic value[151]. When top management and the company CEO discuss the importance of the changes in meetings, employees are provided with a reason to trust that this change is a strategic initiative. For example, while changing the employee performance appraisal system, the CEO of Kimberly Clark made sure to mention the new system in all meetings with employees, indicating that the change was supported by the CEO.

Develop a Sense of Urgency

People are more likely to accept change if they feel that there is a need for it. If employees feel their company is doing well, the perceived need for change will be smaller. Those who plan the change will need to make the case that there is an external or internal threat to the organization's competitiveness, reputation, or sometimes even its survival and that failure to act will have undesirable consequences. For example, Lou Gerstner, the former CEO of IBM, executed a successful transformation of the company in the early 1990s. In his biography *Elephants Can Dance*, Gerstner highlights how he achieved cooperation as follows: "Our greatest ally in shaking loose the past was IBM's eminent collapse. Rather than go with the usual impulse to put on a happy face, I decided to keep the crisis front and center. I didn't want to lose the sense of urgency."[152]

Building a Coalition

To convince people that change is needed, the change leader does not necessarily have to convince every person individually. In fact, people's opinions toward change are affected by opinion leaders or those people who have a strong influence over the behaviors and attitudes of others[153]. Instead of trying to get everyone on board at the same time, it may be more useful to convince and prepare the opinion leaders. Understanding one's own social networks as well as the networks of others in the organization can help managers identify opinion leaders. Once these individuals agree that the proposed change is needed and will

be useful, they will become helpful allies in ensuring that the rest of the organization is ready for change[154]. For example, when Paul Pressler became the CEO of Gap Inc. in 2002, he initiated a culture change effort in the hope of creating a sense of identity among the company's many brands such as Banana Republic, Old Navy, and Gap. For this purpose, employees were segmented instead of trying to reach out to all employees at the same time. Gap Inc. started by training the 2,000 senior managers in "leadership summits," who in turn were instrumental in ensuring the cooperation of the remaining 150,000 employees of the company[155].

Provide Support

Employees should feel that their needs are not ignored. Therefore, management may prepare employees for change by providing emotional and instrumental support. Emotional support may be in the form of frequently discussing the changes, encouraging employees to voice their concerns, and simply expressing confidence in employees' ability to perform effectively under the new system. Instrumental support may be in the form of providing a training program to employees so that they know how to function under the new system. Effective leadership and motivation skills can assist managers to provide support to employees.

Allow Employees to Participate

Studies show that employees who participate in planning change efforts tend to have more positive opinions about the change. Why? They will have the opportunity to voice their concerns. They can shape the change effort so that their concerns are addressed. They will be more knowledgeable about the reasons for change, alternatives to the proposed changes, and why the chosen alternative was better than the others. Finally, they will feel a sense of ownership of the planned change and are more likely to be on board[156]. Participation may be more useful if it starts at earlier stages, preferably while the problem is still being diagnosed. For example, assume that a company suspects there are problems with manufacturing quality. One way of convincing employees that there is a problem that needs to be solved would be to ask them to take customer calls about the product quality.

Once employees experience the problem firsthand, they will be more motivated to solve the problem.

Executing Change

The second stage of Lewin's three-stage change model is executing change. At this stage, the organization implements the planned changes on technology, structure, culture, or procedures. The specifics of how change should be executed will depend on the type of change. However, there are three tips that may facilitate the success of a change effort.

Continue to Provide Support

As the change is under way, employees may experience high amounts of stress. They may make mistakes more often or experience uncertainty about their new responsibilities or job descriptions. Management has an important role in helping employees cope with this stress by displaying support, patience, and continuing to provide support to employees even after the change is complete.

Create Small Wins

During a change effort, if the organization can create a history of small wins, change acceptance will be more likely[157]. If the change is large in scope and the payoff is a long time away, employees may not realize change is occurring during the transformation period. However, if people see changes, improvements, and successes along the way, they will be inspired and motivated to continue the change effort. For this reason, breaking up the proposed change into phases may be a good idea because it creates smaller targets. Small wins are also important for planners of change to make the point that their idea is on the right track. Early success gives change planners more credibility while early failures may be a setback.[158]

Eliminate Obstacles

When the change effort is in place, many obstacles may crop up along the way. There may be key people who publicly support the change effort while silently undermining the planned changes. There may be obstacles rooted in a company's

structure, existing processes, or culture. It is the management's job to identify, understand, and remove these obstacles[159]. Ideally, these obstacles would have been eliminated before implementing the change, but sometimes unexpected roadblocks emerge as change is under way.

Refreezing

After the change is implemented, the long-term success of a change effort depends on the extent to which the change becomes part of the company's culture. If the change has been successful, the revised ways of thinking, behaving, and performing should become routine. To evaluate and reinforce ("refreeze") the change, there are a number of things management can do.

Publicize Success

To make change permanent, the organization may benefit from sharing the results of the change effort with employees. What was gained from the implemented changes? How much money did the company save? How much did the company's reputation improve? What was the reduction in accidents after new procedures were put in place? Sharing concrete results with employees increases their confidence that the implemented change was a right decision.

Reward Change Adoption

To ensure that change becomes permanent, organizations may benefit from rewarding those who embrace the change effort (an aspect of the controlling function). The rewards do not necessarily have to be financial. The simple act of recognizing those who are giving support to the change effort in front of their peers may encourage others to get on board. When the new behaviors employees are expected to demonstrate (such as using a new computer program, filling out a new form, or simply greeting customers once they enter the store) are made part of an organization's reward system, those behaviors are more likely to be taken seriously and repeated, making the change effort successful.[160]

Embracing Continuous Change

While Lewin's three-stage model offers many useful insights into the process of

implementing change, it views each organizational change as an episode with a beginning, middle, and end. In contrast with this episodic change assumption, some management experts in the 1990s began to propose that change is—or ought to be—a continuous process. The learning organization is an example of a company embracing continuous change. By setting up a dynamic feedback loop, learning can become a regular part of daily operations. If an employee implements a new method or technology that seems to be successful, a learning organization is in a good position to adopt it. By constantly being aware of how employee actions and outcomes affect others as well as overall company productivity, the inevitable small changes throughout organizations can be rapidly absorbed and tailored for daily operations. When an organization understands that change does indeed occur constantly, it will be in a   better position to make use of good changes and intervene if a change seems detrimental.

KEY TAKEAWAYS

- Effective change effort can be conceptualized as a three-step process in which employees are first prepared for change, then change is implemented, and finally the new behavioral patterns become permanent.
- According to emerging contemporary views, it can also be seen as a continuous process that affirms the organic, ever-evolving nature of an organization.

Chapter 6 Review Questions

Multiple Choice:

1. Organizations that categorize the company as either functional or divisional is an example of _____.
   a. centralization
   b. departmentalization
   c. formalization
   d. hierarchical levels

2. _____ is the degree to which decision making authority is concentrated at higher levels in an organization.
   a. centralization
   b. departmentalization
   c. formalization
   d. hierarchical levels

3. These organizational structures often resemble a bureaucracy.
   a. boundaryless
   b. martix
   c. mechanistic
   d. organic

4. Moore's law is an example of _____ driving organizations to change.
   a. globalization
   b. growth
   c. technology
   d. workplace demographics

5. Internet booking within airline travel is an example of _____ driving organizations to change.
   a. changes in market conditions
   b. globalization
   c. growth
   d. workplace demographics

Short Answer:

- Describe the difference between mechanistic and organic organizational structures.

- Describe Lewin's Three-Stage Process of Change.

- Explain the seven reasons why people resist change?

Chapter 7 Organizational Culture

Reading this chapter will help you do the following:

1. Describe what organizational culture is and why it is important for an organization.
2. Understand the dimensions that make up a company's culture.
3. Understand the creation and maintenance of organizational culture.
4. Understand the factors that create cultural change.
5. Develop personal culture management skills.

Organizations, just like individuals, have their own personalities—more typically known as organizational cultures. Understanding how culture is created, communicated, and changed will help you to be a more effective manager. But first, let's define organizational culture.

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 34 The P-O-L-C Framework

Understanding Organizational Culture

LEARNING OBJECTIVES

1. Define organizational culture.
2. Understand why organizational culture is important.

3. Understand the different levels of organizational culture.

What Is Organizational Culture?

Organizational culture refers to a system of shared assumptions, values, and beliefs that show people what is appropriate and inappropriate behavior[161]. These values have a strong influence on employee behavior as well as organizational performance. In fact, the term organizational culture was made popular in the 1980s when Peters and Waterman's best-selling book *In Search of Excellence* made the argument that company success could be attributed to an organizational culture that was decisive, customer-oriented, empowering, and people-oriented. Since then, organizational culture has become the subject of numerous research studies, books, and articles. Organizational culture is still a relatively new concept. In contrast to a topic such as leadership, which has a history spanning several centuries, organizational culture is a young but fast- growing area within management.

Culture is largely invisible to individuals just as the sea is invisible to the fish swimming in it. Even though it affects all employee behaviors, thinking, and behavioral patterns, individuals tend to become more aware of their organization's culture when they have the opportunity to compare it to other organizations. It is related to the second of the three facets that compose the P-O-L-C function of organizing. The organizing function involves creating and implementing organizational design decisions. The culture of the organization is closely linked to organizational design. For instance, a culture that empowers employees to make decisions could prove extremely resistant to a centralized organizational design, hampering the manager's ability to enact such a design. However, a culture that supports the organizational structure (and vice versa) can be very powerful.

Why Does Organizational Culture Matter?

An organization's culture may be one of its strongest assets or its biggest liability. In fact, it has been argued that organizations that have a rare and hard-to-imitate culture enjoy a competitive advantage[162]. In a survey conducted by the

management consulting firm Bain & Company in 2007, worldwide business leaders identified corporate culture to be as important as corporate strategy for business success[163]. This comes as no surprise to leaders of successful businesses, who are quick to attribute their company's success to their organization's culture.

Culture, or shared values within the organization, may be related to increased performance. Researchers found a relationship between organizational cultures and company performance, with respect to success indicators such as revenues, sales volume, market share, and stock prices[164]. At the same time, it is important to have a culture that fits with the demands of the company's environment. To the extent that shared values are proper for the company in question, company performance may benefit from culture[165]. For example, if a company is in the high-tech industry, having a culture that encourages innovativeness and adaptability will support its performance. However, if a company in the same industry has a culture characterized by stability, a high respect for tradition, and a strong preference for upholding rules and procedures, the company may suffer because of its culture. In other words, just as having the "right" culture may be a competitive advantage for an organization, having the "wrong" culture may lead to performance difficulties, may be responsible for organizational failure, and may act as a barrier preventing the company from changing and taking risks.

In addition to having implications for organizational performance, *organizational culture is an effective control mechanism dictating employee behavior*. Culture is a more powerful way of controlling and managing employee behaviors than organizational rules and regulations. For example, when a company is trying to improve the quality of its customer service, rules may not be helpful, particularly when the problems customers present are unique. Instead, creating a culture of customer service may achieve better results by encouraging employees to think like customers, knowing that the company priorities in this case are clear: Keeping the customer happy is preferable to other concerns, such as saving the cost of a refund. Therefore, the ability to understand and influence organizational culture is an important item for managers to have in their tool kit when they are carrying out

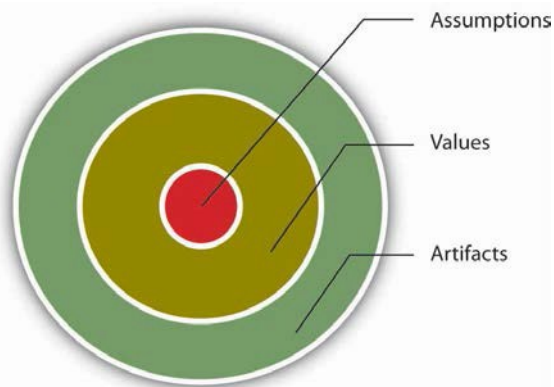their controlling P-O-L-C function as well as their organizing function.

Figure 35 Three Levels of Organizational Culture

Levels of Organizational Culture

Organizational culture consists of some aspects that are relatively more visible, as well as aspects that may lie below one's conscious awareness. Organizational culture can be thought of as consisting of three interrelated levels[166]. At the deepest level, below our awareness, lie basic assumptions. These assumptions are taken for granted and reflect beliefs about human nature and reality. At the second level, values exist. Values are shared principles, standards, and goals. Finally, at the surface, we have artifacts, or visible, tangible aspects of organizational culture. For example, in an organization, a basic assumption employees and managers share might be that happy employees benefit their organizations. This might be translated into values such as egalitarianism, high-quality relationships, and having fun. The artifacts reflecting such values might be an executive "open door" policy, an office layout that includes open spaces and gathering areas equipped with pool tables, and frequent company picnics.

Understanding the organization's culture may start from observing its artifacts: its physical environment, employee interactions, company policies, reward systems, and other observable characteristics. When you are interviewing for a position, observing the physical environment, how people dress, where they relax, and how they talk to others is definitely a good start to understanding the company's culture. However, simply looking at these tangible aspects is unlikely to give a full picture of the organization, since an important chunk of what makes up culture exists below one's degree of awareness. The values and, deeper, the assumptions that shape the organization's culture can be uncovered by observing how employees interact and the choices they make, as well as by inquiring about their

beliefs and perceptions regarding what is right and appropriate behavior.

> ## KEY TAKEAWAYS
>
> - Organizational culture is a system of shared assumptions, values, and beliefs that helps individuals understand which behaviors are and are not appropriate within an organization.
> - Cultures can be a source of competitive advantage for organizations.
> - Strong organizational cultures can be an organizing as well as a controlling mechanism for organizations.
> - Organizational culture consists of three levels: assumptions that are below the surface, values, and artifacts.

Measuring Organizational Culture

LEARNING OBJECTIVES

1. Understand different dimensions of organizational culture.
2. Understand the role of culture strength.
3. Explore subcultures within organizations.

Dimensions of Culture

Which values characterize an organization's culture? Even though culture may not be immediately observable, identifying a set of values that might be used to describe an organization's culture helps us identify, measure, and manage culture more effectively. For this purpose, several researchers have proposed various culture typologies. One typology that has received a lot of research attention is the Organizational Culture Profile (OCP) where culture is represented by seven distinct values.[167]

Figure 36 Dimensions of Organizational Culture Profile (OCP)

Innovative Cultures

According to the OCP framework, companies that have innovative cultures are flexible, adaptable, and experiment with new ideas. These companies are characterized by a flat hierarchy and titles and other status distinctions tend to be downplayed. For example, W. L. Gore & Associates is a company with innovative products such as GORE-TEX® (the breathable fabric that is windproof and waterproof), Glade dental floss, and Elixir guitar strings, earning the company the distinction as the most innovative company in the United States by *Fast Company* magazine in 2004. W. L. Gore consistently manages to innovate and capture the majority of market share in a wide variety of industries, in large part because of its unique culture. In this company, employees do not have bosses in the traditional sense, and risk taking is encouraged by celebrating failures as well as successes[168]. Companies such as W. L. Gore, Genentech, and Google also encourage their employees to take risks by allowing engineers to devote 20% of their time to projects of their own choosing.

Aggressive Cultures

Companies with aggressive cultures value competitiveness and outperforming competitors; by emphasizing this, they often fall short in corporate social responsibility. For example, Microsoft is often identified as a company with an aggressive culture. The company has faced a number of antitrust lawsuits and disputes with competitors over the years. In aggressive companies, people may use language such as "we will kill our competition." In the past, Microsoft executives made statements such as "we are going to cut off Netscape's air supply…Everything they are selling, we are going to give away," and its aggressive culture is cited as a reason for getting into new legal troubles before old ones are resolved[169].

Figure 37 Microsoft, the company that Bill Gates co-founded, has been described as having an aggressive culture. Source: http://simple.wikipedia.org/wiki/Image:Bill_Gates_in_Poland_cropped.jpg

Outcome-Oriented Cultures

The OCP framework describes outcome-oriented cultures as those that emphasize achievement, results, and action as important values. A good example of an outcome-oriented culture may be the electronics retailer Best Buy. Having a culture emphasizing sales performance, Best Buy tallies revenues and other relevant figures daily by department. Employees are trained and mentored to sell company products effectively, and they learn how much money their department made every day[170]. In 2005, the company implemented a Results Oriented Work Environment (ROWE) program that allows employees to work anywhere and anytime; they are evaluated based on results and fulfillment of clearly outlined objectives[171]. Outcome-oriented cultures hold employees as well as managers accountable for success and use systems that

reward employee and group output. In these companies, it is more common to see rewards tied to performance indicators as opposed to seniority or loyalty. Research indicates that organizations that have a performance-oriented culture tend to outperform companies that are lacking such a culture[172]. At the same time, when performance pressures lead to a culture where unethical behaviors become the norm, individuals see their peers as rivals, and short-term results are rewarded, the resulting unhealthy work environment serves as a liability[173].

Stable Cultures

Stable cultures are predictable, rule-oriented, and bureaucratic. When the environment is stable and certain, these cultures may help the organization to be effective by providing stable and constant levels of output[174]. These cultures prevent quick action and, as a result, may be a misfit to a changing and dynamic environment. Public sector institutions may be viewed as stable cultures. In the private sector, Kraft Foods is an example of a company with centralized decision making and rule orientation that suffered as a result of the culture-environment mismatch[175]. Its bureaucratic culture is blamed for killing good ideas in early stages and preventing the company from innovating. When the company started a change program to increase the agility of its culture, one of its first actions was to fight bureaucracy with more bureaucracy: The new position of vice president of "business process simplification" was created but was later eliminated[176].

People-Oriented Cultures

People-oriented cultures value fairness, supportiveness, and respecting individual rights. In these organizations, there is a greater emphasis on and expectation of treating people with respect and dignity[177]. One study of new employees in accounting companies found that employees, on average, stayed 14 months longer in companies with people-oriented cultures[178]. Starbucks is an example of a people-oriented culture. The company pays employees above minimum wage, offers health care and tuition reimbursement benefits to its part-time as well as full-time employees, and has creative perks such as weekly free coffee for all associates. As a result of these policies, the company benefits from a turnover rate

lower than the industry average[179].

Team-Oriented Cultures

Companies with a team-oriented culture are collaborative and emphasize cooperation among employees. For example, Southwest Airlines facilitates a team-oriented culture by cross-training its employees so that they are capable of helping one another when needed. The company also emphasizes training intact work teams[180]. In Southwest's selection process, applicants who are not viewed as team players are not hired as employees[181]. In team-oriented organizations, members tend to have more positive relationships with their coworkers and particularly with their managers.[182]
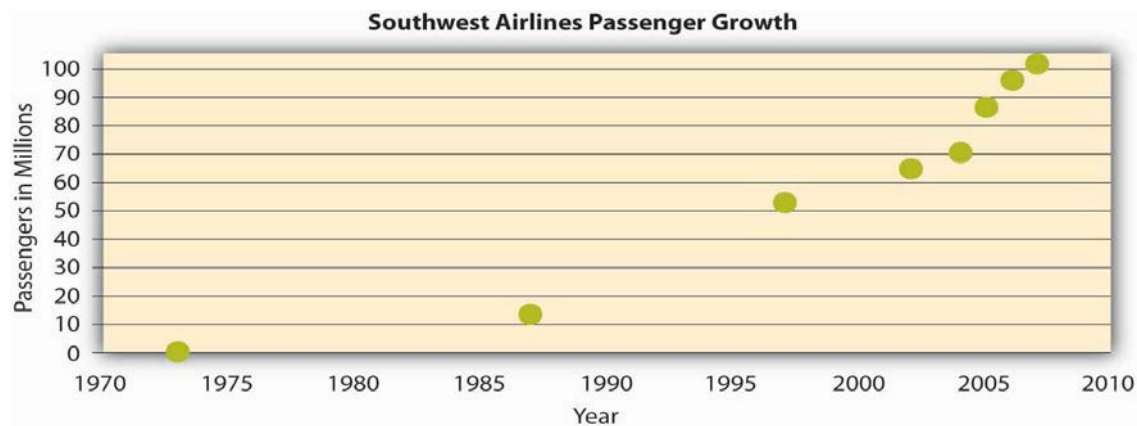
Figure 38 The growth in the number of passengers flying with Southwest Airlines from 1973 until 2007 when Southwest surpassed American Airlines as the most flown U.S. airline. While price has played a role in this, their emphasis on service has been a key piece of their culture and competitive advantage.[183]

Detail-Oriented Cultures

Organizations with a detail-oriented culture are characterized in the OCP framework as emphasizing precision and paying attention to details. Such a culture gives a competitive advantage to companies in the hospitality industry by helping them differentiate themselves from others. For example, Four Seasons and Ritz Carlton are among hotels who keep records of all customer requests such as which newspaper the guest prefers or what type of pillow the customer uses. This information is put into a computer system and used to provide better service to returning customers. Any requests hotel employees receive, as well as

overhear, might be entered into the database to serve customers better.

Strength of Culture

A strong culture is one that is shared by organizational members[184]—that is, a culture in which most employees in the organization show consensus regarding the values of the company. The stronger a company's culture, the more likely it is to affect the way employees think and behave. For example, cultural values emphasizing customer service will lead to higher- quality customer service if there is widespread agreement among employees on the importance of customer-service-related values[185]. It is important to realize that a strong culture may act as an asset or a liability for the organization, depending on the types of values that are shared. For example, imagine a company with a culture that is strongly outcome-oriented. If this value system matches the organizational environment, the company may perform well and outperform its competitors. This is an asset as long as members are behaving ethically. However, a strong outcome-oriented culture coupled with unethical behaviors and an obsession with quantitative performance indicators may be detrimental to an organization's effectiveness. Enron is an extreme example of this dysfunctional type of strong culture.

One limitation of a strong culture is the difficulty of changing it. In an organization where certain values are widely shared, if the organization decides to adopt a

different set of values, unlearning the old values and learning the new ones will be a challenge because employees will need to adopt new ways of thinking, behaving, and responding to critical events. For example, Home Depot had a decentralized, autonomous culture where many business decisions were made using "gut feeling" while ignoring the available data. When Robert Nardelli became CEO of the company in 2000,

Figure 39 Walt Disney created a strong culture at his company that has evolved since its founding in 1923. Source: http://en.wikipedia.org/wiki/Image:Walt_disney_portrait.jpg

he decided to change its culture starting with centralizing many of the decisions that were previously left to individual stores. This initiative met with substantial resistance, and many high-level employees left during Nardelli's first year. Despite getting financial results such as doubling the sales of the company, many of the changes he made were criticized. He left the company in January 2007.[186]

A strong culture may also be a liability during a merger. During mergers and acquisitions, companies inevitably experience a clash of cultures, as well as a clash of structures and operating systems. Culture clash becomes more problematic if both parties have unique and strong cultures. For example, during the merger of Daimler-Benz with Chrysler to create DaimlerChrysler, the differing strong cultures of each company acted as a barrier to effective integration. Daimler had a strong engineering culture that was more hierarchical and emphasized routinely working long hours. Daimler employees were used to being part of an elite organization, evidenced by flying first class on all business trips. However, Chrysler had a sales culture where employees and managers were used to autonomy, working shorter hours, and adhering to budget limits that meant only the elite flew first class. The different ways of thinking and behaving in these two companies introduced a number of unanticipated problems during the integration process.[187]

Do Organizations Have a Single Culture?

So far, we have assumed that a company has a single culture that is shared throughout the organization. In reality there might be multiple cultures within the organization. For example, people working on the sales floor may experience a different culture from that experienced by people working in the warehouse. Cultures that emerge within different departments, branches, or geographic locations are called subcultures. Subcultures may arise from the personal characteristics of employees and managers, as well as the different conditions under which work is performed. In addition to understanding the broader organization's values, managers will need to make an effort to understand subculture values to see their effect on workforce behavior and attitudes.

Sometimes, a subculture may take the form of a counterculture. Defined as shared values and beliefs that are in direct opposition to the values of the broader organizational culture, countercultures are often shaped around a charismatic leader. For example, within a largely bureaucratic organization, an enclave of innovativeness and risk taking may emerge within a single department. A counterculture may be tolerated by the organization as long as it is bringing in results and contributing positively to the effectiveness of the organization. However, its existence may be perceived as a threat to the broader organizational culture. In some cases, this may lead to actions that would take away the autonomy of the managers and eliminate the counterculture.[188]

> ## KEY TAKEAWAYS
> - Culture can be understood in terms of seven different culture dimensions, depending on what is most emphasized within the organization.
> - For example, innovative cultures are flexible, adaptable, and experiment with new ideas, while stable cultures are predictable, rule-oriented, and bureaucratic.
> - Strong cultures can be an asset or liability for an organization but can be challenging to change.
> - Multiple cultures may coexist in a single organization in the form of subcultures and countercultures.

Creating and Maintaining Organizational Culture

LEARNING OBJECTIVES

1. Understand how cultures are created.
2. Learn how to maintain a culture.
3. Recognize organizational culture signs.

How Are Cultures Created?

Where do cultures come from? Understanding this question is important in understanding how they can be changed. An organization's culture is shaped as the organization faces external and internal challenges and learns how to deal with them. When the organization's way of doing business provides a successful adaptation to environmental challenges and ensures success, those values are retained. These values and ways of doing business are taught to new members as *the* way to do business[189]. The factors that are most important in the creation of an organization's culture include founders' values, preferences, and industry demands.
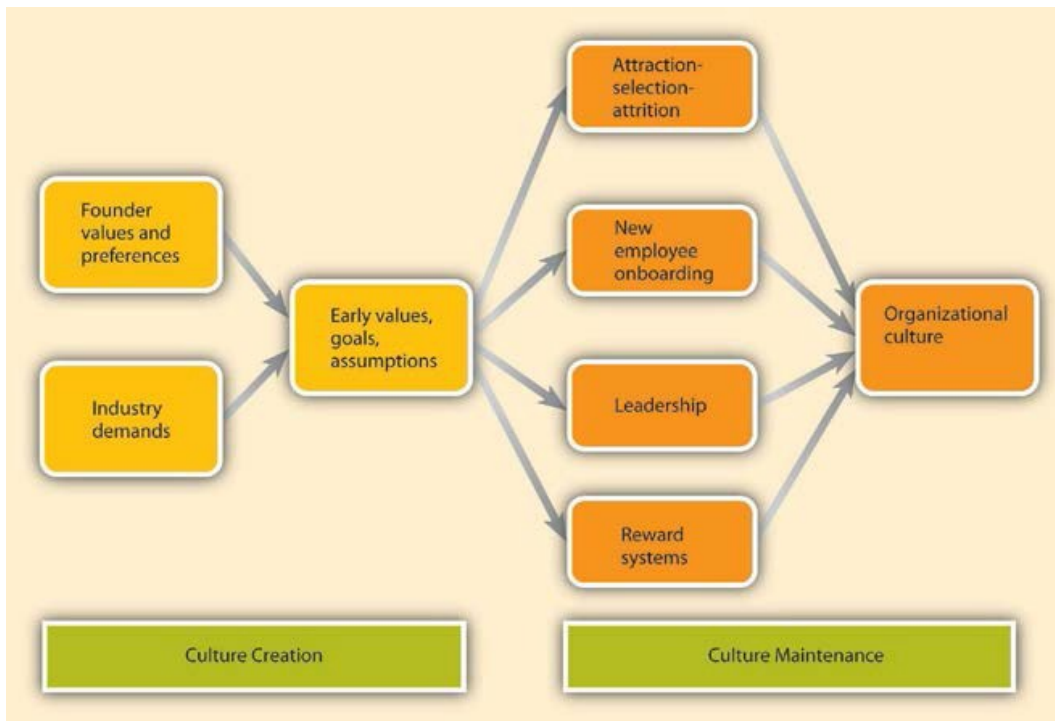
Figure 40 Model Describing How Cultures Are Created and Maintained

Founder Values

A company's culture, particularly during its early years, is inevitably tied to the personality, background, and values of its founder or founders, as well as their vision for the future of the organization. When entrepreneurs establish their own businesses, the way they want to do business determines the organization's rules,

the structure set up in the company, and the people they hire to work with them. For example, some of the existing corporate values of the ice cream company Ben & Jerry's Homemade Holdings Inc. can easily be traced to the personalities of its founders Ben Cohen and Jerry Greenfield. In 1978, the two high school friends opened up their first ice-cream shop in a renovated gas station in Burlington, Vermont. Their strong social convictions led them to buy only from the local farmers and devote a certain percentage of their profits to charities. The core values they instilled in their business can still be observed in the current company's devotion to social activism and sustainability, its continuous contributions to charities, use of environmentally friendly materials, and dedication to creating jobs in low-income areas. Even though Unilever acquired the company in 2000, the social activism component remains unchanged and Unilever has expressed its commitment to maintaining it.[190]

Founder values become part of the corporate culture to the degree to which they help the company be successful. For example, the social activism of Ben and Jerry's was instilled in the company because the founders strongly believed in these issues. However, these values probably would not be surviving 3 decades later if they had not helped the company in its initial stages. In the case of Ben and Jerry's, these values helped distinguish their brand from larger corporate brands and attracted a loyal customer base. Thus, by providing a competitive advantage, these values were retained as part of the corporate culture and were taught to new members as the right way to do business.

Industry Demands

While founders undoubtedly exert a powerful influence over corporate cultures, the industry characteristics also play a role. Companies within the same industry can sometimes have widely differing cultures. At the same time, the industry characteristics and demands act as a force to create similarities among organizational cultures.

Figure 41 Ben & Jerry's has locations around the world, including this store in Singapore. Source: http://commons.wikimedia.org/wiki/Image:BenJerry-UnitedSquare.jpg

For example, despite some differences, many companies in the insurance and banking industries are stable and rule-oriented, many companies in the high-tech industry have innovative cultures, and those in nonprofit industry may be people-oriented. If the industry is one with a large number of regulatory requirements—for example, banking, health care, and high- reliability (such as nuclear power plant) industries—then we might expect the presence of a large number of rules and regulations, a bureaucratic company structure, and a stable culture. The industry influence over culture is also important to know because this shows that it may not be possible to imitate the culture of a company in a different industry, even though it may seem admirable to outsiders.

How Are Cultures Maintained?

As a company matures, its cultural values are refined and strengthened. The early values of a company's culture exert influence over its future values. It is possible to think of organizational culture as an organism that protects itself from external forces. Organizational culture determines what types of people are hired by an organization and what types of people are left out. Moreover, once new employees are hired, the company assimilates new employees and teaches them the way things are done in the organization. We call these processes *attraction- selection-*

attrition and *onboarding* processes. We will also examine the role of *leaders* and *reward systems* in shaping and maintaining an organization's culture.

Attraction-Selection-Attrition

Organizational culture is maintained through a process known as attraction-selection-attrition (ASA). First, employees are *attracted* to organizations where they will fit in. Someone who has a competitive nature may feel comfortable in and may prefer to work in a company where interpersonal competition is the norm. Others may prefer to work in a team-oriented workplace. Research shows that employees with different personality traits find different cultures attractive. For example, out of the Big Five personality traits, employees who demonstrate neurotic personalities were less likely to be attracted to innovative cultures, whereas those who had openness to experience were more likely to be attracted to innovative cultures[191]. Of course, this process is imperfect, and value similarity is only one reason a candidate might be attracted to a company. There may be other, more powerful attractions such as good benefits.

At this point in the process, the second component of the ASA framework prevents them from getting in: *selection*. Just as candidates are looking for places where they will fit in, companies are also looking for people who will fit into their current corporate culture. Many companies are hiring people for fit with their culture, as opposed to fit with a certain job. For example, Southwest Airlines prides itself for hiring employees based on personality and attitude rather than specific job-related skills, which they learn after they are hired. Companies use different techniques to weed out candidates who do not fit with corporate values. For example, Google relies on multiple interviews with future peers. By introducing the candidate to several future coworkers and learning what these coworkers think of the candidate, it becomes easier to assess the level of fit.

Even after a company selects people for person-organization fit, there may be new employees who do not fit in. Some candidates may be skillful in impressing recruiters and signal high levels of culture fit even though they do not necessarily

share the company's values. In any event, the organization is eventually going to eliminate candidates eventually who do not fit in through *attrition*. Attrition refers to the natural process where the candidates who do not fit in will leave the company. Research indicates that person-organization misfit is one of the important reasons for employee turnover[192].

Because of the ASA process, the company attracts, selects, and retains people who share its core values, whereas those people who are different in core values will be excluded from the organization either during the hiring process or later on through naturally occurring turnover. Thus, organizational culture will act as a self-defending organism where intrusive elements are kept out. Supporting the existence of such self-protective mechanisms, research shows that organizations demonstrate a certain level of homogeneity regarding personalities and values of organizational members[193].

New Employee Onboarding

Another way in which an organization's values, norms, and behavioral patterns are transmitted to employees is through onboarding (also referred to as the *organizational socialization process*). Onboarding refers to the process through which new employees learn the attitudes, knowledge, skills, and behaviors required to function effectively within an organization. If an organization can successfully socialize new employees into becoming organizational insiders, new employees will feel accepted by their peers and confident regarding their ability to perform; they will also understand and share the assumptions, norms, and values that are part of the organization's culture. This understanding and confidence in turn translate into more effective new employees who perform better and have higher job satisfaction, stronger organizational commitment, and longer tenure within the company[194]. Organizations engage in different activities to facilitate onboarding, such as implementing orientation programs or matching new employees with mentors.

What Can Employees Do During Onboarding?

New employees who are proactive, seek feedback, and build strong relationships tend to be more successful than those who do not[195]. For example, *feedback seeking* helps new employees. Especially on a first job, a new employee can make mistakes or gaffes and may find it hard to understand and interpret the ambiguous reactions of coworkers. By actively seeking feedback, new employees may find out sooner rather than later any behaviors that need to be changed and gain a better understanding of whether their behavior fits with the company culture and expectations.

Relationship building or *networking* (a facet of the organizing function) is another important behavior new employees may demonstrate. Particularly when a company does not have a systematic approach to onboarding, it becomes more important for new employees to facilitate their own onboarding by actively building relationships. According to one estimate, 35% of managers who start a new job fail in the new job and either voluntarily leave or are fired within one and a half years. Of these, over 60% report not being able to form effective relationships with colleagues as the primary reason for this failure.[196]

What Can Organizations Do During Onboarding?

Many organizations, including Microsoft, Kellogg Company, and Bank of America take a more structured and systematic approach to new employee onboarding, while others follow a "sink or swim" approach where new employees struggle to figure out what is expected of them and what the norms are.

A formal orientation program indoctrinates new employees to the company culture, as well as introducing them to their new jobs and colleagues. An orientation program has a role in making new employees feel welcome in addition to imparting information that may help them be successful in their new jobs. Many large organizations have formal orientation programs consisting of lectures, videotapes, and written material, while some may follow more informal approaches. According to one estimate, most orientations last anywhere from one to five days, and some companies are currently switching to a computer-based orientation. Ritz Carlton,

the company ranked number 1 in *Training* magazine's 2007 top 125 list, uses a very systematic approach to employee orientation and views orientation as the key to retention. In the 2-day classroom orientation, employees spend time with management, dine in the hotel's finest restaurant, and witness the attention to customer service detail firsthand. During these two days, they are introduced to the company's intensive service standards, team orientation, and its own language. Later, on their 21st day they are tested on the company's service standards and are certified.[197]

Research shows that formal orientation programs are helpful in teaching employees about the goals and history of the company, as well as communicating the power structure. Moreover, these programs may also help with a new employee's integration to the team. However, these benefits may not be realized to the same extent in computer-based orientations. In fact, compared to those taking part in a regular, face-to-face orientation, those undergoing a computer-based orientation were shown to have lower understanding of their job and the company, indicating that different formats of orientations may not substitute for each other[198].

What Can Organizational Insiders Do During Onboarding?

One of the most important ways in which organizations can help new employees adjust to a company and a new job is through *organizational insiders*—namely, supervisors, coworkers, and mentors. Leaders have a key influence over onboarding and the information and support they provide determine how quickly employees learn about the company politics and culture, while coworker influence determines the degree to which employees adjust to their teams. Mentors can be crucial to helping new employees adjust by teaching them the ropes of their jobs and how the company really operates. A mentor is a trusted person who provides an employee with advice and support regarding career-related matters. Although a mentor can be any employee or manager who has insights that are valuable to the new employee, mentors tend to be relatively more experienced than their protégés. Mentoring can occur naturally between two interested individuals or organizations can facilitate this process by having formal mentoring programs.

These programs may successfully bring together mentors and protégés who would not come together otherwise.

Research indicates that the existence of these programs does not guarantee their success, and there are certain program characteristics that may make these programs more effective. For example, when mentors and protégés feel that they had input in the mentor-protégé matching process, they tend to be more satisfied with the arrangement. Moreover, when mentors receive training beforehand, the outcomes of the program tend to be more positive[199]. Because mentors may help new employees interpret and understand the company's culture, organizations may benefit from selecting mentors who personify the company's values. Thus, organizations may need to design these programs carefully to increase their chance of success.

Leadership

Leaders are instrumental in creating and changing an organization's culture. There is a direct correspondence between the leader's style and an organization's culture. For example, when leaders motivate employees through inspiration, corporate culture tends to be more supportive and people-oriented. When leaders motivate by making rewards contingent on performance, the corporate culture tended to be more performance-oriented and competitive[200]. In these and many other ways, what leaders do directly influences the cultures of their organizations. This is a key point for managers to consider as they carry out their leading P-O-L-C function.

Part of the leader's influence over culture is through role modeling. Many studies have suggested that leader behavior, the consistency between organizational policy and leader actions, and leader role modeling determine the degree to which the organization's culture emphasizes ethics[201]. The leader's own behaviors will signal to individuals what is acceptable behavior and what is unacceptable. In an organization in which high-level managers make the effort to involve others in decision making and seek opinions of others, a team-oriented culture is more likely

to evolve. By acting as role models, leaders send signals to the organization about the norms and values that are expected to guide the actions of its members.

Leaders also shape culture by their reactions to the actions of others around them. For example, do they praise a job well done or do they praise a favored employee regardless of what was accomplished? How do they react when someone admits to making an honest mistake? What are their priorities? In meetings, what types of questions do they ask? Do they want to know what caused accidents so that they can be prevented, or do they seem more concerned about how much money was lost because of an accident? Do they seem outraged when an employee is disrespectful to a coworker, or does their reaction depend on whether they like the harasser? Through their day-to-day actions, leaders shape and maintain an organization's culture.

Reward Systems

Finally, the company culture is shaped by the type of reward systems used in the organization and the kinds of behaviors and outcomes it chooses to reward and punish. One relevant element of the reward system is *whether the organization rewards behaviors or results*. Some companies have reward systems that emphasize intangible elements of performance as well as more easily observable metrics. In these companies, supervisors and peers may evaluate an employee's performance by assessing the person's behaviors as well as the results. In such companies, we may expect a culture that is relatively people- or team-oriented, and employees act as part of a family[202].

However, in companies in which goal achievement is the sole criterion for reward, there is a focus on measuring only the results without much regard to the process. In these companies, we might observe outcome-oriented and competitive cultures. *Whether the organization rewards performance or seniority* would also make a difference in culture. When promotions are based on seniority, it would be difficult to establish a culture of outcome orientation. Finally, *the types of behaviors that are rewarded or ignored* set the tone for the culture. Which behaviors are rewarded,

which ones are punished, and which are ignored will determine how a company's culture evolves. A reward system is one tool managers can wield when undertaking the controlling function.

Signs of Organizational Culture

How do you find out about a company's culture? We emphasized earlier that culture influences the way members of the organization think, behave, and interact with one another. Thus, one way of finding out about a company's culture is by observing employees or interviewing them. At the same time, culture manifests itself in some visible aspects of the organization's environment. In this section, we discuss five ways in which culture shows itself to observers and employees.
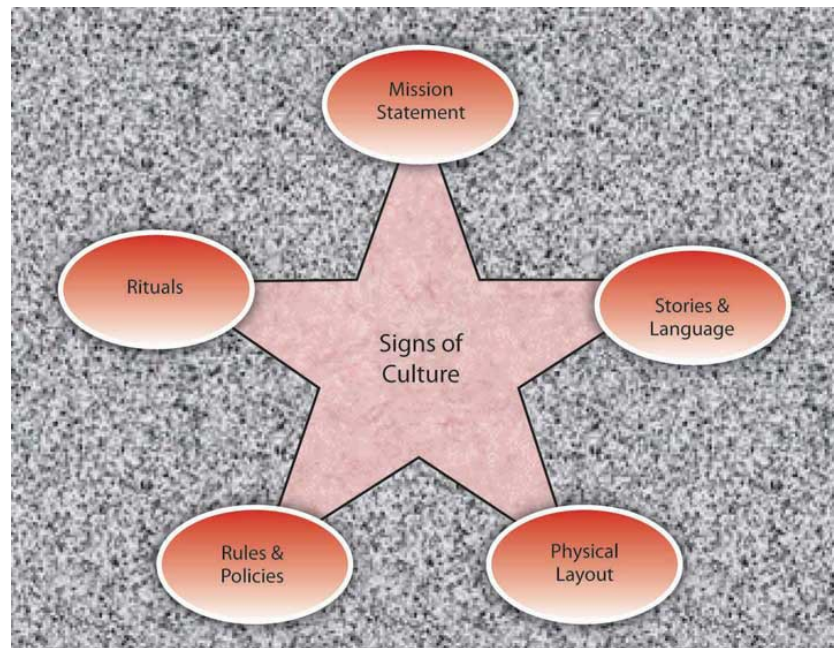
Figure 42 Visual Elements of Culture

Mission Statement

A mission statement is a statement of purpose, describing who the company is and what it does. It serves an important function for organizations as part of the first facet of the planning P-O-L-C function. But, while many companies have mission statements, they do not always reflect the company's values and its purpose. An effective mission statement is well known by employees, is transmitted to all employees starting from their first day at work, and influences employee behavior.

Some mission statements reflect who the company wants to be as opposed to who they actually are. If the mission statement does not affect employee behavior on a

day-to-day basis, it has little usefulness as a tool for understanding the company's culture. Enron provided an often-cited example of a disconnect between a company's mission statement and how the company actually operated. Their missions and values statement started with "As a partner in the communities in which we operate, Enron believes it has a responsibility to conduct itself according to certain basic principles." Their values statement included such ironic declarations as "We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don't belong here."[203]

A mission statement that is taken seriously and widely communicated may provide insights into the corporate culture. For example, the Mayo Clinic's mission statement is "The needs of the patient come first." This mission statement evolved from the founders who are quoted as saying, "The best interest of the patient is the only interest to be considered." Mayo Clinics have a corporate culture that puts patients first. For example, no incentives are given to physicians based on the number of patients they see. Because doctors are salaried, they have no interest in retaining a patient for themselves, and they refer the patient to other doctors when needed[204]. Wal-Mart may be another example of a company that lives its mission statement and therefore its mission statement may give hints about its culture: "Saving people money so they can live better."[205]

Rituals

Rituals refer to repetitive activities within an organization that have symbolic meaning[206]. Usually rituals have their roots in the history of a company's culture. They create camaraderie and a sense of belonging among employees. They also serve to teach employees corporate values and create identification with the organization. For example, at the cosmetics firm Mary Kay Inc., employees attend ceremonies recognizing their top salespeople with an award of a new car—

Figure 43 Tradition is important at Mary Kay Cosmetics. Pink Cadillacs are given to top performers at large annual events. Source: http://en.wikipedia.org/wiki/Image:MK_Cadillacs.jpg

traditionally a pink Cadillac. These ceremonies are conducted in large auditoriums where participants wear elaborate evening gowns and sing company songs that create emotional excitement. During this ritual, employees feel a connection to the company culture and its values such as self-determination, willpower, and enthusiasm.[207]

Another example of rituals is the Saturday morning meetings of Wal-Mart. This ritual was first created by the company founder Sam Walton, who used these meetings to discuss which products and practices were doing well and which required adjustment. He was able to use this information to make changes in Wal-Mart's stores before the start of the week, which gave him a competitive advantage over rival stores who would make their adjustments based on weekly sales figures during the middle of the following week. Today, hundreds of Wal-Mart associates attend the Saturday morning meetings in the Bentonville, Arkansas headquarters. The meetings, which run from 7:00 a.m. to 9:30 a.m., start and end with the Wal-Mart cheer; the agenda includes a discussion of weekly sales figures and merchandising tactics. As a ritual, the meetings help maintain a small-company atmosphere, ensure employee involvement and accountability, communicate a performance orientation, and demonstrate taking   quick action.[208]

Rules and Policies

Another way in which an observer may find out about a company's culture is to examine its rules and policies. Companies create rules to determine acceptable and unacceptable behavior and, thus, the rules that exist in a company will signal

the type of values it has. Policies about issues such as decision making, human resources, and employee privacy reveal what the company values and emphasizes. For example, a company that has a policy such as "all pricing decisions of merchandise will be made at corporate headquarters" is likely to have a centralized culture that is hierarchical, as opposed to decentralized and empowering. The presence or absence of policies on sensitive issues such as English-only rules, bullying and unfair treatment of others, workplace surveillance, open-door policies, sexual harassment, workplace romances, and corporate social responsibility all provide pieces of the puzzle that make up a company's culture. This highlights how interrelated the P-O-L-C functions are in practice. Through rules and policies, the controlling function affects the organization's culture, a facet of organizing.

Impact of HR Practices on Organizational Culture

Below are scenarios of critical decisions you may need to make as a manager one day. Read each question and select one response from each pair of statements. Then, think about the effect your choice would have on the company's culture (your organizing function) as well as on your controlling function.

1. Your company needs to lay off 10 people. Would you:
    a. Lay off the newest 10 people?
    b. Lay off the 10 people who have the lowest performance evaluations?
2. You're asked to establish a dress code. Would you:
    a. Ask employees to use their best judgment?
    b. Create a detailed dress code highlighting what is proper and improper?
3. You need to monitor employees during work hours. Would you:
    a. Not monitor them because they are professionals and you trust them?
    b. Install a program monitoring their Web usage to ensure that they are spending work hours actually doing work?
4. You're preparing performance appraisals. Would you:

a. Evaluate people on the basis of their behaviors?

b. Evaluate people on the basis of the results (numerical sales figures, etc.)?

5. Who will be promoted? Would you promote individuals based on:

a. Seniority?

b. Objective performance?

Physical Layout

A company's building, layout of employee offices, and other workspaces communicate important messages about a company's culture. For example, visitors walking into the Nike campus in Beaverton, Oregon, can witness firsthand some of the distinguishing characteristics of the company's culture. The campus is set on 74 acres and boasts an artificial lake, walking trails, soccer fields, and cutting-edge fitness centers. The campus functions as a symbol of Nike's values such as energy, physical fitness, an emphasis on quality, and a competitive orientation. In addition, at fitness centers on the Nike headquarters, only those using Nike shoes and apparel are allowed in. This sends a strong signal that loyalty is expected. The company's devotion to athletes and their winning spirit are manifested in campus buildings named after famous athletes, photos of athletes hanging on the walls, and their statues dotting the campus.[209]

The layout of the office space also is a strong indicator of a company's culture. A company that has an open layout where high-level managers interact with employees may have a culture of team orientation and egalitarianism, whereas a company where most high-level managers have their own floor may indicate a higher level of hierarchy. Microsoft employees tend to have offices with walls and a door because the culture emphasizes solitude, concentration, and privacy. In contrast, Intel is famous for its standard cubicles, which reflect its egalitarian culture. The same value can also be observed in its avoidance of private and reserved parking spots[210]. The degree to which playfulness, humor, and fun are part of a company's culture may be indicated in the office environment. For example, Jive Software boasts a colorful, modern, and comfortable office design.

Their break room is equipped with a keg of beer, free snacks and sodas, an Xbox 360, and Nintendo Wii. A casual observation of their work environment sends the message that employees who work there see their work as fun.[211]

Stories and Language

Perhaps the most colorful and effective way in which organizations communicate their culture to new employees and organizational members is through the skillful use of stories. A story can highlight a critical event an organization faced and the organization's response to it, or a heroic effort of a single employee illustrating the company's values. The stories usually engage employee emotions and generate employee identification with the company or the heroes of the tale. A compelling story may be a key mechanism through which managers motivate employees by giving their behavior direction and by energizing them toward a certain goal[212]. Moreover, stories shared with new employees communicate the company's history, its values and priorities, and create a bond between the new employee and the organization. For example, you may already be familiar with the story of how a scientist at 3M invented Post-it notes. Arthur Fry, a 3M scientist, was using slips of paper to mark the pages of hymns in his church choir, but they kept falling off. He remembered a super weak adhesive that had been invented in 3M's labs, and he coated the markers with this adhesive. Thus, the Post-it notes were born. However, marketing surveys for the interest in such a product were weak and the distributors were not convinced that it had a market. Instead of giving up, Fry distributed samples of the small yellow sticky notes to secretaries throughout his company. Once they tried them, people loved them and asked for more. Word spread and this led to the ultimate success of the product. As you can see, this story does a great job of describing the core values of a 3M employee: Being innovative by finding unexpected uses for objects, persevering, and being proactive in the face of negative feedback.[213]

Language is another way to identify an organization's culture. Companies often have their own acronyms and buzzwords that are clear to them and help set apart organizational insiders from outsiders. In business, this code is known as jargon.

Jargon is the language of specialized terms used by a group or profession. Every profession, trade, and organization has its own specialized terms.

KEY TAKEAWAYS

- Organizational cultures are created by a variety of factors, including founders' values and preferences, industry demands, and early values, goals, and assumptions.

- Culture is maintained through attraction-selection-attrition, new employee onboarding, leadership, and organizational reward systems.

- Signs of a company's culture include the organization's mission statement, stories, physical layout, rules and policies, and rituals.

Creating Culture Change

LEARNING OBJECTIVE

1. Understand the process of culture change.

How Do Cultures Change?

As emphasized throughout this chapter, culture is a product of its founder's values, its history, and collective experiences. Hence, culture is part of a company's DNA and is resistant to change efforts. Unfortunately, many organizations realize that their current culture constitutes a barrier against organizational productivity and
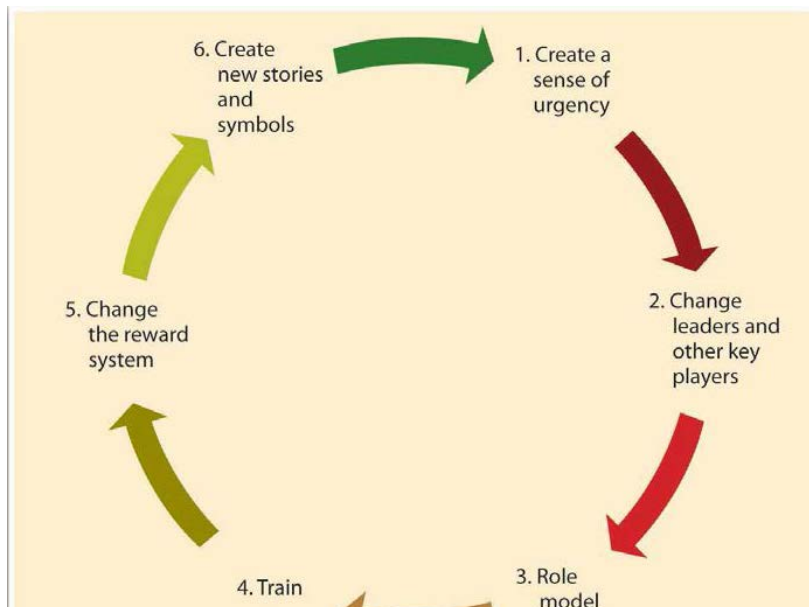
Figure 44 Process of Culture Change

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performance. Particularly when there is a mismatch between an organization's values and the demands of its environment, changing the culture becomes the key to the company turnaround.

Achieving culture change is challenging, and there are many companies that ultimately fail in this mission. Research and case studies of companies that successfully changed their culture indicate that the following six steps increase the chances of success.[214]

Creating a Sense of Urgency

For the change effort to be successful, it is important to communicate the need for change to employees. One way of doing this is to create a sense of urgency on the part of employees, explaining to them why changing the fundamental way in which business is done is so important. In successful culture change efforts, leaders communicate with employees and present a case for culture change as the essential element that will lead the company to eventual success. As an example, consider the situation at IBM in 1993 when Lou Gerstner was brought in as CEO and chairman. After decades of dominating the market for mainframe computers, IBM was rapidly losing market share to competitors, and its efforts to sell personal computers—the original PC—were seriously undercut by cheaper   "clones." In the public's estimation, the name IBM had become associated with obsolescence. Gerstner recalls that the crisis IBM was facing became his ally in changing the organization's culture. Instead of spreading optimism about the company's future, he used the crisis at every opportunity to get buy-in from employees[215].

Changing Leaders and Other Key Players

A leader's vision is an important factor that influences how things are done in an organization. Thus, culture change often follows changes at the highest levels of the organization. Moreover, to implement the change effort quickly and efficiently, a company may find it helpful to remove managers and other powerful employees who are acting as a barrier to change. Because of political reasons, self-interest, or habits, managers may create powerful resistance to change efforts. In such cases,

replacing these positions with employees and managers giving visible support to the change effort may increase the likelihood that the change effort succeeds. For example, when Robert Iger replaced Michael Eisner as CEO of the Walt Disney Company, one of the first things he did was to abolish the central planning unit, which was staffed by people close to ex-CEO Eisner. This department was viewed as a barrier to creativity at Disney and its removal from the company was helpful in ensuring the innovativeness of the company culture.[216]

Role Modeling

Role modeling is the process by which employees modify their own beliefs and behaviors to reflect those of the leader[217]. CEOs can model the behaviors that are expected of employees to change the culture because these behaviors will trickle down to lower-level employees. For example, when Robert Iger took over Disney, to show his commitment to innovation, he personally became involved in the process of game creation, attended summits of developers, and gave feedback to programmers about the games. Thus, he modeled his engagement in the idea creation process. In contrast, the modeling of inappropriate behavior from the top will lead to the same behavior trickling down to lower levels. A recent example to this type of role modeling is the scandal involving Hewlett-Packard board members. In 2006, when board members were suspected of leaking confidential company information to the press, the company's top-level executives hired a team of security experts to find the source of the leak. The investigators sought the phone records of board members, looking for links to journalists. For this purpose, they posed as board members and called phone companies to obtain itemized home phone records of board members and journalists. When the investigators' methods came to light, HP's chairman and four other top executives faced criminal and civil charges. When such behavior is modeled at top levels, it is likely to have an adverse effect on the company culture.[218]

Training

Well-crafted training programs may be instrumental in bringing about culture change by teaching employees the new norms and behavioral styles. For example,

after the space shuttle *Columbia* disintegrated on reentry from a February 2003 mission, NASA decided to change its culture to become more safety sensitive and minimize decision-making errors that lead to unsafe behaviors. The change effort included training programs in team processes and cognitive bias awareness. Similarly, when auto repairer Midas felt the need to change its culture to be more committed to customers, they developed a program to train employees to be more familiar with customer emotions and connect better with them. Customer reports have been overwhelmingly positive in stores that underwent this training.[219]

Changing the Reward System

The criteria with which employees are rewarded and punished have a powerful role in determining the cultural values of an organization. Switching from a commission-based incentive structure to a straight salary system may be instrumental in bringing about customer focus among sales employees. Moreover, by rewarding and promoting employees who embrace the company's new values and promoting these employees, organizations can make sure that changes in culture have a lasting effect. If the company wants to develop a team- oriented culture where employees collaborate with one another, then using individual-based incentives may backfire. Instead, distributing bonuses to intact teams might be more successful in bringing about culture change.

Creating New Symbols and Stories

Finally, the success of the culture change effort may be increased by developing new rituals, symbols, and stories. Continental Airlines is a company that successfully changed its culture to be less bureaucratic and more team-oriented in 1990s. One of the first things management did to show employees that they really meant to abolish many of the company's detailed procedures and create a culture of empowerment was to burn the heavy 800-page company policy manual in their parking lot. The new manual was only 80 pages. This action symbolized the upcoming changes in the culture and served as a powerful story that circulated among employees. Another early action was redecorating waiting areas and repainting all their planes, again symbolizing the new order of things[220]. By

replacing the old symbols and stories, the new symbols and stories will help enable the culture change and ensure that the new values are communicated.

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KEY TAKEAWAYS

- Organizations need to change their culture to respond to changing conditions in the environment, to remain competitive, and to avoid complacency or stagnation. Culture change often begins by the creation of a sense of urgency.

- Next, a change of leaders and other key players may enact change and serve as effective role models of new behavior.

- Training can also be targeted toward fostering these new behaviors. Reward systems are changed within the organization. Finally, the organization creates new stories and symbols.

- Successful culture change requires managers that are proficient at all of the P-O-L-C functions. Creating and communicating a vision is part of planning; leadership and role modeling are part of leading; designing effective reward systems is part of controlling; all of which combine to influence culture, a facet of organizing.

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Chapter 7 Review Questions

Multiple Choice:

1. By making a case that there is an external or internal threat to the organization, a manager should _____ during the unfreezing before change?
     a. build a coalition
     b. communicate a plan for change
     c. develop a sense of urgency
     d. provide support

2. A flat hierarchy, titles, and other status distinctions tend to be downplayed within these companies.
     a. aggressive
     b. innovation
     c. outcome oriented
     d. stable

3. Microsoft is an example of a/an _____ culture.
     a. aggressive
     b. innovation
     c. outcome oriented
     d. stable

4. Southwest Airlines is an example of a/an _____ culture.
     a. detail oriented
     b. outcome oriented
     c. people oriented
     d. team oriented

5. These serve to teach employees corporate values and create identification with the organization.
     a. physical layout
     b. rituals
     c. rules and policies
     d. stories and language

Short Answer:

- Describe what organizational culture is?

- Describe the five signs of culture.

- According to Process of Cultural Change, describe the processes of culture change.

Chapter 8 Social Networks

Reading this chapter will help you do the following:

1. Understand the social network vocabulary.

2. Know why social networks and networking are valuable.

3. Know some of the ethical considerations related to social network analysis.

4. Understand the difference between personal, operational, and strategic social networks.

5. Map your own social network and understand its implications.

Most management textbooks do not cover the subject of social networks. This is an unfortunate oversight. Social networks can be considered "the invisible organization"—they are the pathways through which communication and resources flow and how work actually gets done. We include this chapter on social networks in the organizing section of the book because, like organizational design, the management of social networks is important in the planning-organizing-leading-controlling (P-O-L-C) framework. An organization chart might communicate who reports to whom, but it is ultimately the internal (within organization) and external (ties between members of the organization and people outside the organization such as suppliers or customers) social networks that really explain productivity (or impediments to productivity).

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 45 The P-O-L-C Framework

You are probably already active in social networks through such Web communities

as MySpace, Facebook, and LinkedIn. However, these sites are really only the tip of the iceberg when it comes to the role of social networks in management. Networks provide managers with three unique advantages: (1) access to information and knowledge, (2) access to diverse skill sets, and (3) power. While managers see these advantages at work every day, they might not pause to consider how their networks regulate them. In this chapter, you will learn about the role and importance of social networks, and social network analysis, in the organizing facet of the P-O-L-C framework. You will also have an opportunity to map and evaluate your own social network, and answer questions about its effectiveness for you personally and professionally.

An Introduction to the Lexicon of Social Networks

LEARNING OBJECTIVES

1. Be able to define a social network.
2. Understand the key dimensions of social networks.
3. Identify various types of social networks.

This section draws on extensive social network research to help you understand the managerial implications of that body of knowledge. Social networks often complement or compete with such aspects of organizations as formal organization structure (think "org chart"), work processes (think "job description"), human resource practices, leadership style, and organization culture. This is particularly problematic in knowledge-intensive settings where management is counting on collaboration among employees with different types of expertise. People rely heavily on their networks of relationships to find information and solve problems—one of the most consistent findings in the social science literature is that *who* you know often has a great deal to do with *what* you come to know. An excellent review of this literature is found in:[221] Yet both practical experience and scholarly research indicate significant difficulty in getting people with different expertise, backgrounds,

and problem-solving styles to integrate their unique perspectives effectively. It is one problem to learn or act on knowledge with others who think like you (such as in a community of practice); however, it is an entirely different problem to do this in diverse social contexts, such as cross-functional teams, where people often do not share a common vision, language, metrics of performance, or even understanding of the problem. For example, sociologists have demonstrated how correct information can have little or no effect on critical decision processes[222]. Further, organizational theorists have shown that a person's knowledge can be role constrained[223]. From a manager's standpoint, simply moving boxes on an organizational chart is not sufficient to ensure effective collaboration among workers.

What Is a Social Network?

If you were asked for a definition of a social network, your intuition would probably provide you with a pretty close answer. A social network can be characterized as a patterned set of relationships between two or more people—or, as they are called in the social science literature, actors. It can be depicted in a sociogram, as shown in the following figure. The term "actors" is broader, as it includes all possible types of information/knowledge processing entities: the individuals, groups, organizations, or supraorganizations that constitute the network[224].

For instance, all of the people named in the figure are actors, but you could also

Figure 46 Sociogram: A Simple Social Network

consider each work group or department as an actor if you were concerned with the interaction among these groups rather than with the interaction within the groups or among individuals. The characteristics of a social network also are the determinants of social capital, that is, the resources—such as ideas, information,
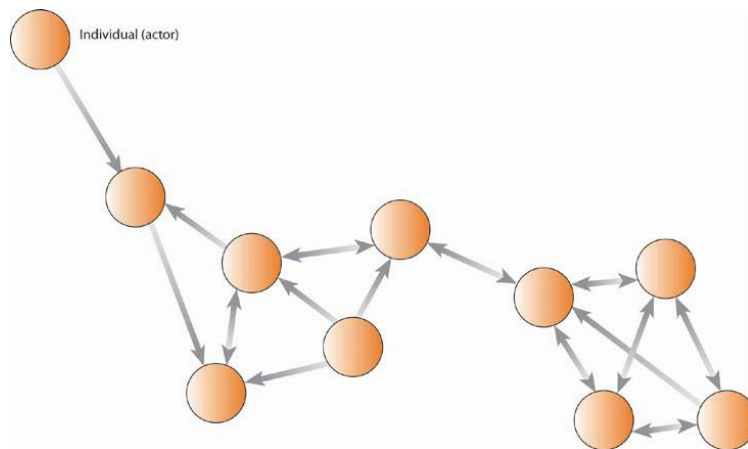
money, and trust—available in and through personal and business networks. You can have social capital, as can organizations. However, since social capital is based on relationships, no single person can claim ownership of it, but it is important and manageable.

Social Network Analysis and the Quality of Work Interactions

The mapping and measuring of relationships and flows among people, groups, organizations, computers, Web sites, and other actors is called social network analysis (SNA), which we will discuss in greater detail later in the chapter. Each connection, or relationship, between actors is known as a network tie, while each actor, or point on the network, is referred to as a node. In the previous figure, Thomas is a node and his connections to Albert, Eric,
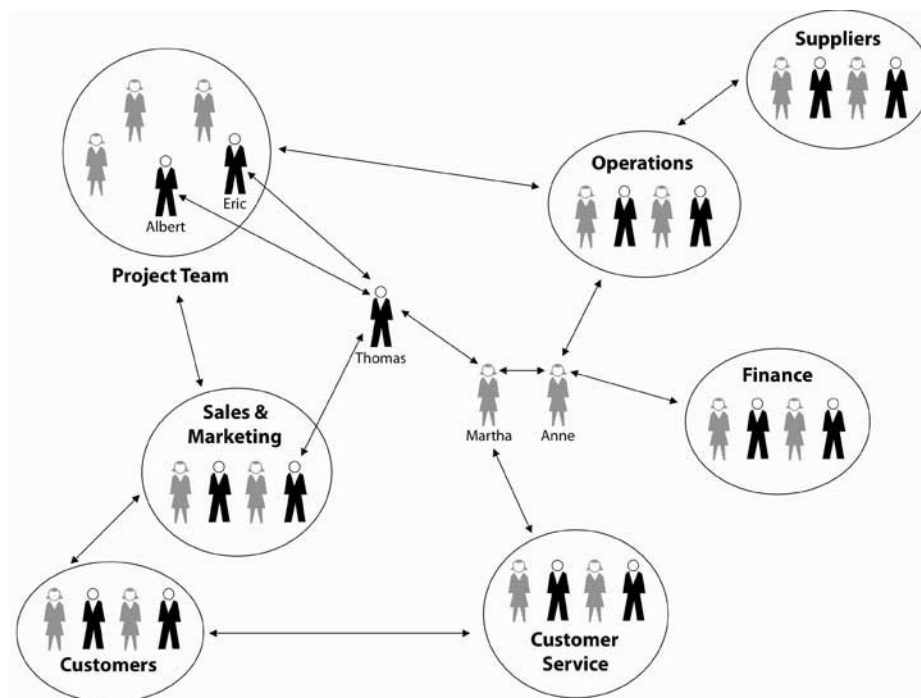
Figure 47 Example of a Social Network Based on Information Ties

Martha, and others are network ties. Direct ties are those in which a single link spans two actors; indirect ties are where connections exist between actors, but only through other actors (hence, *indirect* ties). You can see that Thomas has four *direct ties* and is indirectly tied to everyone in the network. Conceptually, you probably have *indirect ties* to everyone on the planet but that does not necessarily mean they come to mind as part of your social network.

Network size would be the number of actors. Though you might be interested in the count of all network members, you also might want to know how many people are one, two, or three links away. Long before computer networking was invented, psychologists Jeffrey Travers and Stanley Milgram conducted a low-tech experiment that looked directly at this question[225]. They asked how many links might be necessary to get an envelope from one randomly chosen person to another randomly chosen person in the United States. They found that, on average, there were six links— or "degrees of separation"—between any two people randomly drawn from the U.S. population (at the time) of 250 million. Flipping the numbers around,

Figure 48 Actor Kevin Bacon founded sixdegrees.org to help charities network and share resources. Source: http://en.wikipedia.org/wiki/Image:Kevinbacongfdl.PNG

Travers and Milgram then estimated that each individual had a potential network of 3,000 to 10,000 people. You may be familiar with this larger body of work in terms of "how many degrees of separation are you from Kevin Bacon?" or the notion of the "six degrees of separation."

Social Network Characteristics

The extent to which a given actor is in the middle of the network is referred to as centrality (i.e., network centrality), though the definition of "middle" can vary from who has the most ties, to who is the unique connection between two other groups. Centrality is good because it puts the actor in a position to gather information, and to serve as broker between the parties that are connected via that actor.

Another basic network indicator is density, which essentially reflects how many people in a network are connected (usually directly) to each other. You can imagine that there are a number of possible network configurations based simply on

permutations of network size, centrality, and density. For instance, you can have a large or tiny network, be central or peripheral in the network, and have a dense or sprawling network. Each of these structures has implications for how the network might serve its various actors.

The tie between actors can be directional or bidirectional (i.e., reciprocal flows between actors); similarly, a network can be described as social, personal, professional, informational, and so on, depending on what is of most interest.

A Sampling of Social Network Types

As a manager, you might be interested in your employees'

- communication network
- information network
- problem-solving network
- knowledge network
- access network

These dimensions, and their specific definitions, are taken from:[226] A communication network is the informal structure of an organization as represented in ongoing patterns of interaction, either in general or with respect to a given issue. For instance, people on the same office floor may periodically congregate in the break room or by the soda machine and engage in informal communication. For this reason, some descriptions of social networks focus on the *informal network*. That is, the pattern of interactions among employees that aren't a direct consequence of the organization chart, job descriptions, and so on.

An information network shows who goes to whom for advice on work-related matters. For example, if you have a question about filling out a form, or answering a customer's question, who do you regularly seek out for answers? A problem-solving network indicates who goes to whom to engage in dialogue that helps people solve problems at work. For instance, "whenever this machine breaks down I know I can turn to Pat for help." A knowledge network captures who is aware of

whose knowledge and skills, and an access network shows who has access to whose knowledge and expertise.

The example with Pat is also a knowledge network because it appears that you understand that Pat has the needed knowledge, and there is no barrier impeding your access to Pat. However, if the organization had rules telling you that you needed to talk to Pat's boss before getting assistance from Pat, then the knowledge network and access network would look different. You can imagine that each of these types of networks might reveal a different structure, depending on the question—for example, the linkages would be different across iterations of the figure. You can see that information is flowing back and forth between different actors in the network. However, it does not appear that information is flowing directly between all network members—for instance, the sales and marketing, finance, and operations staff do not communicate directly with each other. However, if you were to combine the staff from those functions in the same office space, you would likely create a new communication network, which in turn could change the information ties of all the members.

More recent work in social network research has also considered the way that individuals interact, as well as their potential impact on network relationships[227]. Five key dimensions of work quality can also be taken into account with social networks:

1. activity
2. control
3. access
4. influence
5. power

Activity gauges how active a person is in the network. For example, an individual may be in the network, but actually do little to affect what is going on. Control gauges how much control a person has over the flow of information. Centrality is

obviously one indicator of control, but there may be other determinants of control such as intelligence, personality, or even a particular skill set. In highly technical fields, for example, one individual (a node) can make a big difference on information flow, even if he or she is situated in a fairly open and balanced network. Access tells you how easily a person in the network can get the resources that he or she needs to be successful in the organization. How many steps, for instance, are they away from those individuals or units that are most instrumental for their success? Influence and power are different but related characteristics. Influence shows how much *potential* influence a person wields in the network, while power tells you how able they are to get things done. You may be interested in other dimensions of work quality, so feel free to experiment with them in SNA.

KEY TAKEAWAYS

- Social networks are the invisible structure in organizations—they capture the actual pathways of how information flows and how work is done.

- Network size, centrality, and density were identified as key features of social networks, and you have a general understanding of at least five types of social networks: communication, information, problem solving, knowledge, and access.

How Managers Can Use Social Networks to Create Value

LEARNING OBJECTIVES

1. Understand the roles of reciprocity, exchange, and similarity.
2. See how social networks create value in career management.
3. See how social networks create value in and across organizations.

You probably have an intuitive sense of how and why social networks are valuable for you, personally and professionally. The successful 2008 U.S. presidential campaign of Barack Obama provides a dramatic example of how individuals can benefit when they understand and apply the principles and power of social networking[228]. In this section, we discuss three fundamental principles of social network theory, then help you see how social networks create value in your career and within and across organizations.

Reciprocity, Exchange, and Similarity

Across all social networks, performance depends on the degree to which three fundamental principles are accounted for[229]. The first is the principle of reciprocity, which simply refers to the degree to which you trade favors with others. With the principle of reciprocity, managers have the ability to get things done by providing services to others in exchange for the services they require. For instance, you are more likely to get assistance with a problem from a colleague at work when you have helped him or her out in the past. Although the quid pro quo may not be immediate, over time managers will receive only in proportion to what they give. Unless the exchanges are roughly equivalent over time, hard feelings or distrust will result. In organizations, few transactions are one-shot deals. Most are ongoing trades of "favors." Therefore, two outcomes are important: success in achieving the objective and success in improving the relationship such that the next exchange will be more productive.

The second principle is the principle of exchange. Like the reciprocity principle, it refers to "trading favors," but it is different in this way: the principle of exchange proposes that there may be greater opportunity for trading favors when the actors are different from one another. In fact, according to network theory, "difference" is what makes network ties useful in that such difference increases the likelihood that each party brings a complementary resource to the table. Going back to our example where you sought out assistance from a colleague, you probably needed that assistance because that person brought a different skill set, knowledge, or other resources to bear on the problem. That is, since you were different, the value

of exchange was greater.

The third principle is the principle of similarity. Psychologists studying human behavior have observed that relationships, and therefore network ties, tend to develop spontaneously between people with common backgrounds, values, and interests. Similarity, to the extent that your network is composed only of like-minded folks, also makes it more likely that an individual may be dependent on a handful of people with common interests.

Why is it important to understand these three principles? As a manager, you will find your network useful to the extent that you can balance the effects of the three principles. Because of similarity, it is easier to build networks with those with whom you have various things in common, though this similarity makes the network less useful if you need new ideas or other resources not in the current group. A critical mistake is to become overly dependent on one person or on only a few network relationships. Not only can those relationships sour but also the manager's usefulness to others depends critically on his or her other connections. Those people most likely to be attractive potential protégés, for example, will also be likely to have alternative contacts and sponsors available to them.

Similarity also means that you have to work harder to build strong *exchange* networks, since their formation is not spontaneous. Most personal networks are highly clustered—that is, your friends are likely to be friends with one another as well. And, if you made those friends by introducing yourself to them, the chances are high that their experiences and perspectives echo your own. Because ideas generated within this type of network circulate among the same people with shared views, a potential winner can wither away and die if no one in the group has what it takes to bring that idea to fruition. But what if someone within that cluster knows someone else who belongs to a whole different group? That connection, formed by an information broker, can expose your idea to a new world, filled with fresh opportunities for success. Diversity makes the difference.

Finally, for reciprocity to work, you have to be willing and able to trade or reciprocate favors, and this means that you might need access to other people or resources outside the current network. For example, you may have to build relationships with other individuals such that you can use them to help you contribute to your existing network ties.

Social Networks and Careers

We owe our knowledge about the relationship between social network characteristics and finding a job to Stanford sociologist Mark Granovetter. In a groundbreaking study, Granovetter found that job seekers are more likely to find a job through weak ties than through strong ties[230]. He demonstrated that while job hunters use social connections to find work, they don't use close friends. Rather, survey respondents said they found jobs through acquaintances: old college friends, former colleagues, people they saw only occasionally or just happened to run into at the right moment. New information, about jobs or anything else, rarely comes from your close friends, because they tend to know the same things and people you do. Strong ties, as you might expect, exist among individuals who know one another well and engage in relatively frequent, ongoing resource exchanges. Weak ties, in contrast, exist among individuals who know one another, at least by reputation, but who do not engage in a regular exchange of resources. In fact, Granovetter showed that those who relied on weak ties to get a job fared better in

the market in terms of higher pay, higher occupational status, greater job satisfaction, and longer job tenure. While much in the world has changed since Granovetter's 1974 research, subsequent studies continue to affirm his basic findings on the consequences of social network structure[231]. As you might
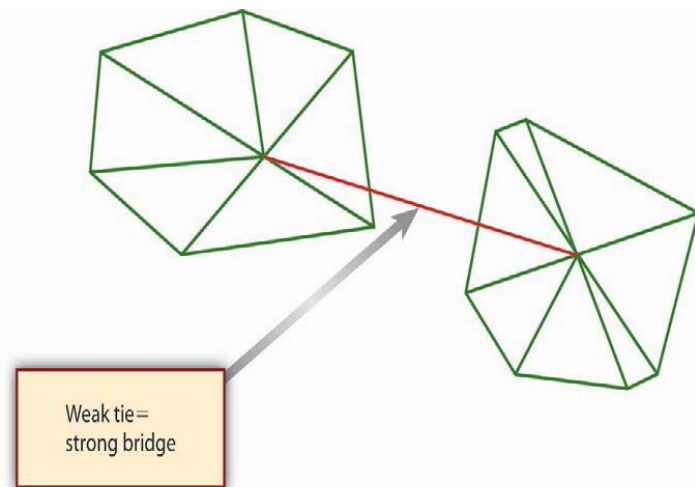

Figure 49 The Value of Weak Ties

expect, for weak ties to be effective though, there must be some basis for affinity between the indirectly connected individuals, but this affinity can simply be having the same birth month or high school or college alma mater.

The value of weak ties is highly counterintuitive; we tend to think of relationships being more valuable when we have strong ties to others. However, if you think about it, the value of a weak tie lies in the fact that it is typically a bridging tie, that is, a tie that provides non-redundant information and resources. In the case of a job search, the weak tie serves as a strong bridge. "Social Networking as a Career-Building Strategy" suggests some personal strategies you might consider with your own social networks.

Social Networking as a Career-Building Strategy

Penelope Trunk, author of "The Brazen Careerist" column and blog (*blog.penelopetrunk.com*), views job hunting not as an event but as a lifestyle. She advises that in today's business environment, people change jobs so often that they need to keep their eye on the market even if they just started a new job. In her view, "the people who control their destiny most effectively leave their job when they find a better one, not when they are tossed out because of layoffs or reorganizations." This also means that social networking should be a central element in any job-search strategy. And because many jobs are filled by knowing someone who knows about an open position, Trunk argues that it's more important to network than it is to read the want ads. Trunk evokes the principle of reciprocity when she says, "building a network is adding value to lots of peoples' lives so that they, in turn, will want to add value to yours." Another useful strategy is to network proactively rather than reacting to concerns about your present job or news of a possible opening. By being proactive, you will increase your chances of being in the right place at the right time.

Career networking opportunities are plentiful; regardless of where you live, you can use the Internet to read blogs, subscribe to e-mail newsletters, and make friends on social networking sites. When you consider the principle of exchange, you

realize that your networking possibilities are not limited to people in your chosen field—you can actually gain more by networking with those in related fields, or even in jobs far removed from yours. With the exchange principle in mind, even residents of sparsely populated rural areas can network with their neighbors a few miles down the road.[232]

Use LinkedIn to Find a Job—or Have a Job Find You

LinkedIn (*http://www.LinkedIn.com*) is the largest online network of experienced professionals from around the world, representing 150 industries. Other business networking sites include Plaxo.com, Ryze.com, and Xing.com (primarily Europe and China). Here are eight effective networking job-hunting tactics to employ with LinkedIn (or with any networking site):

1. Create a Profile. Create a detailed profile on LinkedIn, including employment (current and past), education, industry, and Web sites.
2. Consider a Photo. You can add a photo (a headshot is recommended or upload a larger photo and edit it) to your LinkedIn profile. Note that it must be a small photo—no larger than 80 × 80 pixels.
3. Keywords and Skills. Include all your resume keywords and skills in your profile, so your profile will be found.
4. Build Your Network. Connect with other members and build your network. The more connections you have, the more opportunities you have, with one caveat, "Connect to people you know and trust or have a business relationship with, no need to go crazy and connect with everyone."
5. Get Recommendations. Recommendations from people you have worked with carry a lot of weight.
6. Search Jobs. Use the job search section to find job listings.
7. Use Answers. The Answers section of LinkedIn is a good way to increase your visibility. Respond to questions, and ask a question if you need information or assistance.
8. Stay Connected. Use LinkedIn Mobile (*m.linkedin.com*) to view profiles, invite new connections, and access to LinkedIn Answers from your phone.
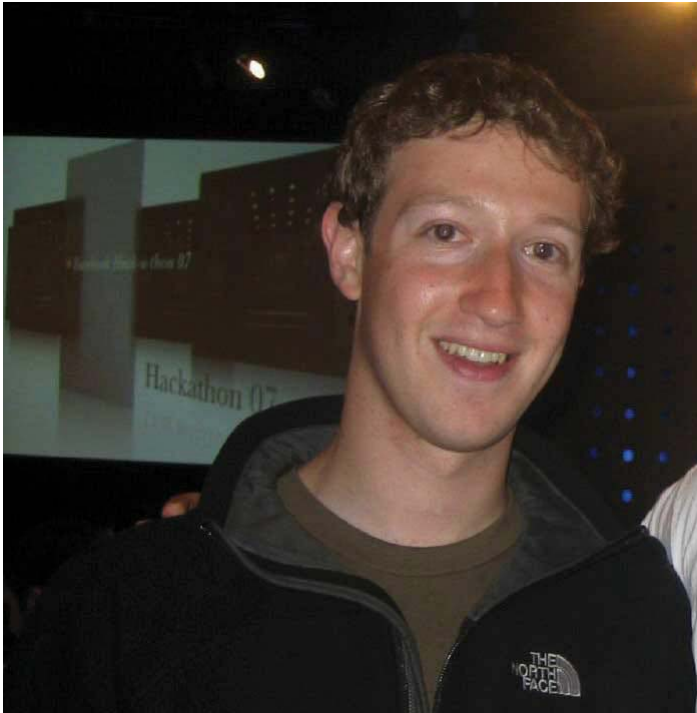
But No More Than 150 Ties!

It is important to note here a factor called Dunbar's number. That is, there is some natural upper limit to the size of network you can effectively maintain, even with online tools like Facebook and LinkedIn. The existence of an upper boundary makes sense if you think about it—each contact you add to your network will likely require some amount of time to sustain. In 1993, Oxford anthropologist Robin Dunbar theorized that "this limit is a direct function of relative neocortex size [your brain's center of higher brain functions], and that this in turn limits group size…the limit imposed by neocortical processing capacity is simply on the number of individuals with whom a stable inter-personal relationship can be maintained."[233] On the periphery, the number also includes past colleagues such as high school friends with whom a person would want to get reacquainted if they met again.

Figure 50 Mark Zuckerberg, cofounder of Facebook, helped to bring social networking to 90 million users. Source: http://commons.wikimedia.org/wiki/Image:Zuckerberg2.jpg

Making Invisible Work Visible

In 2002, organizations researchers Rob Cross, Steve Borghatti, and Andrew Parker published the results of their study of the social networking characteristics of 23 *Fortune* 500 firms[234]. These researchers were concerned that traditional analysis of organizational structure might miss the true way that critical work was being done in modern firms—that is, they theorized that social networks, and not the structure presented on the organization chart, might be a better indicator of the

flow of knowledge, information, and other vital strategic resources in the organization. One goal of their research was to better define scenarios where conducting a social network analysis would likely yield sufficient benefit to justify the investment of time and energy on the part of the organization.

Cross and colleagues found that SNA was particularly valuable as a diagnostic tool for managers attempting to promote collaboration and knowledge sharing in important networks. Specifically, they found SNA uniquely effective in:

- Promoting effective collaboration within a strategically important group.
- Supporting critical junctures in networks that cross functional, hierarchical, or geographic boundaries.
- Ensuring integration within groups following strategic restructuring initiatives.

Connect and Develop

Consumer product giant Procter & Gamble (P&G) pioneered the idea of *connect and develop,* which refers to developing new products and services through a vast social network spanning parts of P&G and many other external organizations. Like many companies, P&G historically relied on internal capabilities and those of a network of trusted suppliers to invent, develop, and deliver new products and services to the market. It did not actively seek to connect with potential external partners. Similarly, the P&G products, technologies and know-how it developed were used almost solely for the manufacture and sale of P&G's core products. Beyond this, P&G seldom licensed them to other companies.

However, around 2003 P&G woke up to the fact that, in the areas in which it does business, there are millions of scientists, engineers, and other companies globally. Why not collaborate with them? P&G now embraces open innovation, and it calls this approach "Connect + Develop." It even has a Web site with Connect + Develop as its address (*http://www.pgconnectdevelop.com*). This open innovation network at P&G works both ways—inbound and outbound—and encompasses

everything from trademarks to packaging, marketing models to engineering, and business services to design.

On the inbound side, P&G is aggressively looking for solutions for its needs, but also will consider any innovation—packaging, design, marketing models, research methods, engineering, and technology—that would improve its products and services. On the outbound side, P&G has a number of assets available for license: trademarks, technologies, engineering solutions, business services, market research methods and models, and more.

As of 2005, P&G's Connect + Develop strategy had already resulted in more than 1,000 active agreements. Types of innovations vary widely, as do the sources and business models. P&G is interested in all types of high-quality, on-strategy business partners, from individual inventors or entrepreneurs to smaller companies and those listed in the FORTUNE 500—even competitors. Inbound or out, know-how or new products, examples of success are as diverse as P&G's product categories. Some of these stories are shown in "P&G Connect + Develop Success Stories."

P&G Connect + Develop Success Stories
Bringing Technology Into P&G:

Olay Regenerist: How a small French company became part of P&G Beauty's $2 billion brand

A few years ago, the folks in P&G's skin care organization were looking both internally and externally for antiwrinkle technology options for next-generation Olay products. At a technical conference in Europe, P&G first learned of a new peptide technology that wound up being a key component used in the blockbuster product, Olay Regenerist.

The technology was developed by a small cosmetics company in France. They not only developed the peptide but also the in vitro and clinical data that convinced

P&G to evaluate this material. After they shared some of their work at a conference attended by P&G's skin-care researchers, they accepted an invitation for their technologists to visit P&G and present their entire set of data on the antiwrinkle effects of the new peptide. This company now continues to collaborate with P&G on new technology upstream identification and further upstream P&G projects.

Taking Technology Out of P&G:

Calsura: Not all calcium is created equal.

When P&G was in the juice business, it discovered Calsura, a more absorbable calcium that helps build stronger bones faster, and keeps them stronger for life. The addition of Calsura calcium makes any food or drink a great source of the daily calcium needed for building stronger bones faster in kids, and keeping bones stronger throughout adulthood; Calsura is proven to be 30% more absorbable than regular calcium. Today, P&G licenses the Calsura technology to several companies.

University Collaboration:

University of Cincinnati Live Well Collaborative: Collaborating with a university in a new way

P&G has partnered with the prestigious design school at the University of Cincinnati to develop products specifically for consumers over age 50. Using design labs, university students and P&G researchers collaborate to study the unique needs of the over-50 consumer. The goal is to develop and commercialize products that are designed for this consumer bracket.

The Innovation Network[235]

Strategy consultant McKinsey & Company points to recent academic research that finds differences in individual creativity and intelligence matter far less for organizational innovation than connections and networks. That is, networked employees can realize their innovations and make them catch on more quickly

than non-networked employees can.[236] On the basis of what was found by Cross and colleagues across many large firms, within P&G in particular, and in their own research, McKinsey has observed four important steps in the innovation network process[237]. These four critical steps in designing, implementing, and managing an innovation network are summarized in the following figure.
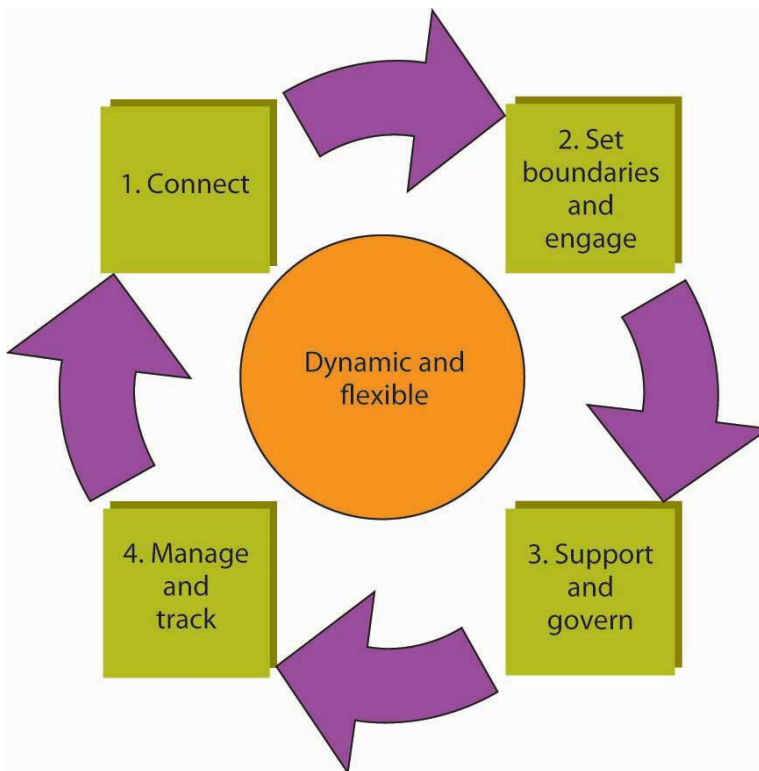

Figure 51 Managing the Innovation Network

The first step, *connect*, involves the identification of key people in the organization with an innovation mind-set. Such individuals are not wed to the status quo and are comfortable with change and uncertainty. It is important to involve individuals with different backgrounds and approaches to innovation. For instance, some individuals are great at generating ideas while others may be better at researching and validating them. This group of individuals would then be defined as a network. The second step, *set boundaries and engage*, is where the network's goals and objectives are defined. It is important to make it clear how the network's goals and objectives will contribute to the organization's goals and larger strategy, mission, and vision. Time frames and desired target outcomes are stated as well.

In the third step, *support and govern*, the leadership structure for the network is decided on, along with any protocols for meeting, sharing ideas, and decision making. With these process guidelines in place, the network members can then

make sure that they have identified the resources necessary to conduct their work. This includes gaining sponsorship and buy-in from other parts of the organization, including upper management. Finally, the fourth step involves *managing and tracking*. This last step covers a spectrum of needs, ranging from how network members will be recognized and rewarded for their contributions, the agreement about process-tracking criteria, and some guidelines on how new members join the network and others leave.

As mentioned in the *connect* stage of developing an innovation network, you can fine-tune the network's goals by identifying the appropriate mix and balance of employees. Innovation networks, like cross-functional teams, require different skills and attitudes. In McKinsey's experience, they include combinations of several archetypes. Which one are you?

- *Idea generators* prefer to come up with ideas, believe that asking the right questions is more important than having the right answers, and are willing to take risks on high-profile experiments.
- *Researchers* mine data to find patterns, which they use as a source of new ideas. They are the most likely members of the network to seek consumer insights and to regard such insights as a primary input.
- *Experts* value proficiency in a single domain and relish opportunities to get things done.
- *Producers* orchestrate the activities of the network. Others come to them for new ideas or to get things done. They are also the most likely members of the network to be making connections across teams and groups.

- This section showed how social networks create value.

- We started by introducing the social network theory concepts of reciprocity, exchange, and similarity.

- We then discussed using social networks as a vehicle for advancing your own career.

- The section concluded by explaining how social networks create value in and across organizations, with specific examples of making invisible work visible, Procter & Gamble's Connect + Develop, and McKinsey's "innovation network" concept.

Personal, Operational, and Strategic Networks

LEARNING OBJECTIVES

1. See networks as something you can, and need to, manage.
2. Know about different network forms—personal, operational, and strategic.
3. Understand some of the actions you need to take to move your network forward.

This section draws heavily on recent research by Herminia Ibarra, Brian Uzzi, and others, to help you understand the different forms that social networks can take. Ibarra and Uzzi have been studying the social networks and social networking tactics and strategies of managers for more than 20 years and are considered thought-leaders in the field[238]. Their most recent work suggests that strong, useful networks don't just happen at the watercooler. They have to be carefully constructed.

What separates successful managers from the rest of the pack? Networking: creating a fabric of personal contacts to provide the support, feedback, and

resources needed to get things done. Yet many managers avoid networking. Some think they don't have time for it. Others disdain it as manipulative. To succeed as a manager, Ibarra recommends building three types of networks:

- Personal—kindred spirits outside your organization who can help you with personal advancement.
- Operational—people you need to accomplish your assigned, routine tasks.
- Strategic—people outside your control who will enable you to reach key organizational objectives.

These networks, their purpose, and how to build network membership, are summarized in "Personal, Operational, and Strategic Networks." Most importantly, Ibarra's work suggests that leaders need to possess all three types of networks, and not just one or two. Let's take a look at each one of these networks.

Table 6 Personal, Operational, and Strategic Networks

	The purpose of this network is to…	**If you want to find network members, try…**
Personal network	exchange important referrals and needed outside information; develop professional skills through coaching and mentoring	participating in alumni groups, clubs, professional associations, and personal interest communities.
Operational network	get your work done, and get it done efficiently.	identifying individuals who can block or support a project.
Strategic network	figure out future priorities and challenges; get stakeholder support for them.	identifying lateral and vertical relationships with other functional and business unit managers—people outside your immediate control—who can help you determine how your role and contribution fit into the overall picture.

Personal Networks

"Personal networks are largely external, made up of discretionary links to people outside the workplace with whom we have something in common. As a result, what makes a personal network powerful is its referral potential. According to the

famous six degrees of separation principle, our personal contacts are valuable to the extent that they help us reach, in as few connections as possible, the far-off person who has the information we need.[239]" Personal networking engages kindred spirits from outside an organization in an individual's efforts to learn and find opportunities for personal advancement. Personal networks are one's circle of casual acquaintances, typically composed of people outside of the company you work for. Before you have a job in a particular company, many of your network ties are personal, oriented toward current interests and future potential interests. Key contacts are typically discretionary—that is, it is not always clear who is most relevant.

Most personal networks are highly clustered—that is, your friends are likely to be friends with one another as well. And, if you made those friends by introducing yourself to them (as opposed to being introduced by a mutual acquaintance), the chances are high that their experiences and perspectives echo your own. Ideas generated within a personal network typically circulate among the same people with shared views. This creates the risk that a potential winning idea can go unexploited if no one in the group has what it takes to bring that idea to fruition.

But what if someone within that cluster knows someone else who belongs to a whole different group? That connection, formed by an information broker, can expose your idea to a new world, filled with fresh opportunities for success. Diversity and breadth, that is, reaching out to contacts who can make referrals, makes the difference. Through professional associations, alumni groups, clubs, and personal interest communities, managers gain new perspectives that allow them to advance in their careers. This is what we mean by personal networking.

While personal networks are important, particularly to the extent that they provide you with valuable resources and access to needed resources, the challenge is to convert them into network resources that also help with operational and strategic needs. Too often, however, those individuals in the personal network just aren't the right types of ties to be beneficial operationally or strategically, which is why you

need to look at broadening your network to address operating and strategic needs.

Operational Networks

"All managers need to build good working relationships with the people who can help them do their jobs. The number and breadth of people involved can be impressive—such operational networks include not only direct reports and superiors but also peers within an operational unit, other internal players with the power to block or support a project, and key outsiders such as suppliers, distributors, and customers. The purpose of this type of networking is to ensure coordination and cooperation among people who have to know and trust one another in order to accomplish their immediate tasks…Either you're necessary to the job and helping to get it done, or you're not."[240] On the basis of a close study of 30 emerging leaders, Ibarra and Hunter found that operational networking was geared toward doing one's assigned tasks more effectively. It involves cultivating stronger relationships with colleagues whose membership in the network is clear; their roles define them as stakeholders. The previous quote provides you with a good working definition of operational network: "Either you're necessary to the job and helping get it done, or you're not." That is, anyone who satisfies this criterion should be considered part of your operational network.

So, now you have two networking bases covered. At least you know how to identify the gaps in your personal and operational network. Your personal network provides access to external resources and referrals; your operational network helps you get the work done. Thus, most operational networking occurs within an organization, and ties are determined in large part by routine, short- term demands. Relationships formed with outsiders, such as board members, customers, and regulators, are directly task-related and tend to be bounded and constrained by demands determined at a higher level. But as a manager moves into a leadership role, his or her network must reorient itself externally and toward the future. This is the role played by strategic networking.

Strategic Networks

"Making a successful leadership transition requires a shift from the confines of a clearly defined operational network…It is a challenge to make the leap from a lifetime of functional contributions and hands-on control to the ambiguous process of building and working through networks. Leaders must accept that networking is one of the most important requirements of their new leadership roles and continue to allocate enough time and effort to see it pay off."[241] Whereas an operational network is fairly narrowly focused, with the locus of contacts formed around specific objectives, a strategic network necessarily involves lateral and vertical ties to stakeholders inside and outside of the firm. As Ibarra and Hunter found in their research, strategic networking is the ability to marshal information, support, and resources from one sector of a network to achieve results in another. Pushed to its logical limit, the basis of this difference is that effective leaders are highly dependent on others to get things done. The irony here is that the individuals in your network, who are the lifeline for building up the big picture, are also individuals who are likely to be outside of your immediate control. While this may seem obvious, it is often difficult to transition from a purely operational network to a strategic one, either due to simple time constraints (strategic networking takes time, often without immediate or obvious benefits) or because of negative personal attitudes toward strategic networking (for instance, "that's too political and goes against my values").

Making It Happen

Networks create value, but networking takes real work. Beyond that obvious point, accept that networking is one of the most important requirements of a leadership role. To overcome any qualms about it, identify a person you respect who networks effectively and ethically. Observe how he or she uses networks to accomplish goals. You probably will also have to reallocate your time. This means becoming a master at the art of delegation, to liberate time you can then spend on cultivating networks.

Building a network obviously means that you need to establish connections. Create reasons for interacting with people outside your function or organization; for

instance, by taking advantage of social interests to set the stage for addressing strategic concerns. Ibarra and Hunter found that personal networking will not help a manager through the leadership transition unless he or she learns how to bring those connections to bear on organizational strategy. In "Guy Kawasaki's Guide to Networking through LinkedIn," you are introduced to a number of network growth strategies using that powerful Web-based tool.

Finally, remind yourself that networking requires you to apply the principle of reciprocity. That is, give and take continually—though a useful mantra in networking is "give, give, give." Don't wait until you really need something badly to ask for a favor from a network member. Instead, take every opportunity to give to—and receive from—people in your networks, regardless of whether you need help.

Guy Kawasaki's Guide to Networking Through LinkedIn

LinkedIn (*http://www.Linkedin.com*) is the top business social networking site. With more than 30 million members by the end of 2008, its membership dwarfs that of the second-largest business networking site, Plaxo. LinkedIn is an online network of experienced professionals from around the world representing 150 industries.[242] Yet, it's still a tool that is underutilized, so entrepreneur Guy Kawasaki compiled a list of ways to increase the value of LinkedIn[243]. Some of Kawasaki's key points are summarized here that can help you develop the strategic side of your social network (though it will help you with job searches as well):

- Increase your visibility. By adding connections, you increase the likelihood that people will see your profile first when they're searching for someone to hire or do business with. In addition to appearing at the top of search results, people would much rather work with people who their friends know and trust.

- Improve your connectability. Most new users put only their current company in their profile. By doing so, they severely limit their ability to connect with

people. You should fill out your profile like it's a resume, so include past companies, education, affiliations, and activities. You can also include a link to your profile as part of an e-mail signature. The added benefit is that the link enables people to see all your credentials.

- Perform blind, "reverse," and company reference checks. Use LinkedIn's reference check tool to input a company name and the years the person worked at the company to search for references. Your search will find the people who worked at the company during the same time period. Since references provided by a candidate will generally be glowing, this is a good way to get more balanced data.

- Make your interview go more smoothly. You can use LinkedIn to find the people that you're meeting. Knowing that you went to the same school, play hockey, or share acquaintances is a lot better than an awkward silence after, "I'm doing fine, thank you."

- Gauge the health of a company. Perform an advanced search for company name and uncheck the "Current Companies Only" box. This will enable you to scrutinize the rate of turnover and whether key people are abandoning ship. Former employees usually give more candid opinions about a company's prospects than someone who's still on board.

KEY TAKEAWAYS

- In this section, you were introduced to a different slant on social networks—a slant that helps you manage your networks based on where you might be in an organization.

- Personal networks are important and tend to follow you everywhere. In this section, we stressed the access-to-information and referral benefits of personal networks.

- Operational networks are those that help you get your immediate work done, and if the key stakeholders in the work process aren't already in your operational network, then you have some network rework in order.

- Finally, strategic networks are those that involved a much broader stakeholder group and typically involved individuals who are out of your direct control.

- One key takeaway from this section is that effective leaders are effective networkers, and you will need to figure out the style of networking that works for you as you move higher in an organization.

Chapter 8 Review Questions

Multiple Choice:

1. Travers and Milgram conducted an experiment from the U.S. population and found that, on average, there were _____ links between any two people randomly drawn.
    a. five
    b. six
    c. seven
    d. ten

2. A/an _____ network captures who is aware of whose skills.
    a. access
    b. information
    c. knowledge
    d. problem solving

3. The principle of _____ proposes that there may be greater opportunity for trading favors when there are differences.
    a. complexity
    b. exchange
    c. reciprocity
    d. similarity

4. When trying to find network members, identifying people who can block or support a project is an example of a _____ network.
    a. operational
    b. personal
    c. social
    d. strategic

5. To develop the strategic side of your social network, by including past companies, education, affiliations, and activities, you can _____.
    a. gauge the health of a company
    b. improve your connect ability
    c. increase your visibility
    d. perform blind, "reverse," and company reference checks

Short Answer:

- Describe the three key features of social networks.

- In order, describe the four steps in Managing the Innovation Network.

- Describe the purposes of the three types of networks.

Chapter 9 Leading People and Organizations

Reading this chapter will help you do the following:

1. Define what leadership is and identify traits of effective leaders.

2. Describe behaviors that effective leaders demonstrate.

3. Specify the contexts in which various leadership styles are effective.

4. Explain the concepts of transformational, transactional, charismatic, servant, and authentic leadership.

5. Develop your own leadership skills.

Planning	Organizing	Leading	Controlling
1. Vision & Mission 2. Strategizing 3. Goals & Objectives	1. Organization Design 2. Culture 3. Social Networks	1. Leadership 2. Decision Making 3. Communications 4. Groups/Teams 5. Motivation	1. Systems/Processes 2. Strategic Human Resources

Figure 52 The P-O-L-C Framework

Perhaps this is obvious, but leadership is the first of five facets constituting a manager's leading function in the P-O-L-C framework. Leadership may be defined as the act of influencing others to work toward a goal. Leaders exist at all levels of an organization. Some leaders hold a position of authority and may use the power that comes from their position, as well as their personal power, to influence others; they are called formal leaders. In contrast, informal leaders are without a formal position of authority within the organization but demonstrate leadership by influencing others through personal forms of power. One caveat is important here: Leaders do not rely on the use of force to influence people. Instead, people willingly adopt the leader's goal as their own goal. If a person is relying on force and punishment, the person is a dictator, not a leader.

What makes leaders effective? What distinguishes people who are perceived as leaders from those who are not perceived as leaders? More importantly, how do we train future leaders and improve their leadership ability? These are important questions that have attracted scholarly attention in the past several decades. In this chapter, we will review the history of leadership studies and summarize the major findings relating to these important questions. Around the world, we view leaders as at least partly responsible for their team's or company's success and failure. Company chief executive officers (CEOs) are paid millions of dollars in salaries and stock options with the assumption that they hold their company's future in their hands. In politics, education, sports, and profit and nonprofit sectors, influence of leaders over the behaviors of individuals and organizations is rarely questioned. When people and organizations fail, managers and CEOs are often viewed as responsible. Some people criticize the assumption that leadership always matters and call this belief "the romance of leadership." However, research evidence pointing to the importance of leaders for organizational success is accumulating.[244]

Who Is a Leader? Trait Approaches to Leadership

LEARNING OBJECTIVES

1. Learn the position of trait approaches in the history of leadership studies.
2. Explain the traits that are associated with leadership.
3. Discuss the limitations of trait approaches to leadership.

The earliest approach to the study of leadership sought to identify a set of traits that distinguished leaders from non-leaders. What were the personality characteristics and physical and psychological attributes of people who are viewed as leaders? Because of the problems in measurement of personality traits at the time, different studies used different measures. By 1940, researchers concluded that the search for leadership-defining traits was futile. In recent years, though,

after advances in personality literature such as the development of the Big Five personality framework, researchers have had more success in identifying traits that predict leadership[245]. Most importantly, charismatic leadership, which is among the contemporary approaches to leadership, may be viewed as an example of a trait approach. The traits that show relatively strong relations with leadership are as follows:[246]

Intelligence

General mental ability, which psychologists refer to as "g" and which is often called IQ in everyday language, has been related to a person's emerging as a leader within a group. Specifically, people who have high mental abilities are more likely to be viewed as leaders in their environment[247]. We should caution, though, that intelligence is a positive but modest predictor of leadership. In addition to having high IQ, effective leaders tend to have high emotional intelligence (EQ). People with high EQ demonstrate a high level of self-awareness, motivation, empathy, and social skills. The psychologist who coined the term emotional intelligence, Daniel Goleman, believes that IQ is a threshold quality: it matters for entry- to high-level management jobs, but once you get there, it no longer helps leaders because most leaders already have high IQ. According to Goleman, what differentiates effective leaders from ineffective ones becomes their ability to control their own emotions and understand other people's emotions, their internal motivation, and their social skills[248]. Many observers believe that Carly Fiorina, the ousted CEO of HP,

Trait	Description
Openness	Being curious, original, intellectual, creative, and open to new ideas.
Conscientiousness	Being organized, systematic, punctual, achievement-oriented, and dependable.
Extraversion	Being outgoing, talkative, sociable, and enjoying social situations.
Agreeableness	Being affable, tolerant, sensitive, trusting, kind, and warm.
Neuroticism	Being anxious, irritable, temperamental, and moody.

Figure 53 Big Five Personality Traits Source: Goldberg, L. R. (1990). An alternative "description of personality": The big-five factor structure. Journal of Personality & Social Psychology, 59, 1216–1229.

demonstrated high levels of intelligence but low levels of empathy for the people around her, which led to an overreliance on numbers while ignoring the human cost of her decisions.[249]

Psychologists have proposed various systems for categorizing the characteristics that make up an individual's unique personality; one of the most widely accepted is the Big Five model, which rates an individual according to openness to experience, conscientiousness, extraversion, agreeableness, and Neuroticism. Several of the Big Five personality traits have been related to leadership emergence (whether someone is viewed as a leader by others) and leadership effectiveness.

Figure 54 Steve Ballmer, CEO of Microsoft, is an extraverted leader. For example, to celebrate Microsoft's 25th anniversary, Ballmer enthusiastically popped out of the anniversary cake to surprise the audience. Source: http://en.wikipedia.org/wiki/Image:Steve_ballmer_2007_o utdoors2.jpg

For example, extraversion is related to leadership. *Extraverts* are sociable, assertive, and energetic people. They enjoy interacting with others in their environment and demonstrate self-confidence. Because they are both dominant and sociable in their environment, they emerge as leaders in a wide variety of situations. Out of all personality traits, extraversion has the strongest relationship to both leader emergence and leader effectiveness. Research shows that conscientious people are also more likely to be leaders. This is not to say that all effective leaders are extraverts, but you are more likely to find extraverts in leadership positions. An example of an introverted leader is Jim Buckmaster, the CEO of Craigslist. He is known as an introvert, and he admits to not having meetings because he does not like them[250].

Another personality trait related to leadership is *conscientiousness.* Conscientious people are organized, take initiative, and demonstrate persistence in their

endeavors. Conscientious people are more likely to emerge as leaders and be effective as leaders. Finally, people who have *openness to experience*—those who demonstrate originality, creativity, and are open to trying new things—tend to emerge as leaders and tend to be effective as leaders.

Self-Esteem

Self-esteem is not one of the Big Five personality traits, but it is an important aspect of one's personality. The degree to which people are at peace with themselves and have an overall positive assessment of their self-worth and capabilities seems to be relevant to whether they will be viewed as a leader. Leaders with high self-esteem support their subordinates more, and when punishment needs to be administered, they punish more effectively[251]. It is possible that those with high self-esteem have greater levels of self- confidence and this affects their image in the eyes of their followers. Self-esteem may also explain the relationship between some physical attributes and emerging as a leader. For example, research shows a strong relationship between height and being viewed as a leader (as well as one's career success over life). It is proposed that self-esteem may be the key to the connection of height with leadership, because people who are taller are also found to have higher self- esteem and therefore may project greater levels of charisma as well as confidence to their followers[252].

Integrity

Research also shows that people who are effective as leaders tend to have a moral compass and demonstrate honesty and integrity[253]. Leaders whose integrity is questioned lose their trustworthiness, and they hurt their company's business along the way.
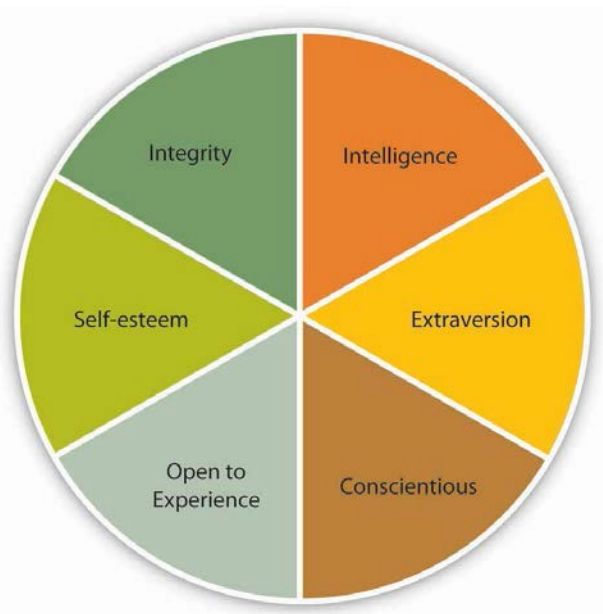
Figure 55 Traits Associated with Leadership

For example, when it was revealed that Whole Foods CEO John Mackey was using a pseudonym to make negative comments online about the company's rival Wild Oats, his actions were heavily criticized, his leadership was questioned, and the company's reputation was affected.[254]

Figure 56 Condoleezza Rice had different responsibilities as the provost of Stanford University compared with her role as secretary of state for the United States. Do you think these differences affected her behavior as a leader? Source: http://en.wikipedia.org/wiki/Image:Condoleezza_Rice_cropped.jpg

There are also some traits that are negatively related to emerging as a leader and being successful as a leader. For example, agreeable people who are modest, good natured, and avoid conflict are less likely to be *perceived* as leaders.[255] The key to benefiting from the findings of trait researchers is to be aware that not all traits are equally effective in predicting leadership potential across all circumstances. Some organizational situations allow leader traits to make a greater difference[256]. For example, in small, entrepreneurial organizations where leaders have a lot of leeway to determine their own behavior, the type of traits leaders have may make a difference in leadership potential. In large, bureaucratic, and rule-bound organizations, such as the government and the military, a leader's traits may have less to do with how the person behaves and whether the person is a successful leader[257]. Moreover, some traits become relevant in specific circumstances. For example, bravery is likely to be a key characteristic in military leaders but not necessarily in business leaders. Scholars now conclude that instead of trying to identify a few traits that distinguish leaders from non-leaders, it is important to identify the conditions under which different traits affect a leader's performance, as well as whether a person emerges as a leader.[258]

> ## KEY TAKEAWAYS
> - Many studies searched for a limited set of personal attributes, or traits, which would make someone be viewed as a leader and be successful as a leader.
> - Some traits are consistently related to leadership, such as intelligence (both mental ability and emotional intelligence), personality (extraversion, conscientiousness, openness to experience, self-esteem), and integrity.
> - The main limitation of the trait approach was that it ignored the situation in which leadership occurred. Therefore, it is more useful to specify the conditions under which different traits are needed.

What Do Leaders Do? Behavioral Approaches to Leadership

LEARNING OBJECTIVES

1. Explain the behaviors that are associated with leadership.
2. Identify the three alternative decision-making styles leaders use and the conditions under which they are more effective.
3. Discuss the limitations of behavioral approaches to leadership.

When the trait researchers became disillusioned in 1940s, their attention turned to studying leader behaviors. What did effective leaders actually do? Which behaviors helped them to be perceived as leaders? Which behaviors increased their success?

Leader Behaviors

In order to understand behaviors of effective leaders, researchers at Ohio State University and University of Michigan used many different techniques such as observing leaders in laboratory settings as well as surveying them. This research

stream led to the discovery of two broad categories of behaviors: task-oriented behaviors (sometimes called *initiating structure*) and people-oriented behaviors (also called *consideration*). Task-oriented leader behaviors involve structuring the roles of subordinates, providing them with instructions, and behaving in ways that will increase the performance of the group. Task-oriented behaviors are directives given to employees to get things done and to ensure that organizational goals are met. People-oriented leader behaviors include showing concern for employee feelings and treating employees with respect. People-oriented leaders genuinely care about the well-being of their employees and they demonstrate their concern in their actions and decisions. At the time, researchers thought that these two categories of behaviors were the keys to the puzzle of leadership[259]. However, research did not support the argument that demonstrating both of these behaviors would necessarily make leaders effective.[260]

When we look at the overall findings regarding these leader behaviors, it seems that both types of behaviors, in the aggregate, are beneficial to organizations but for different purposes. For example, when leaders demonstrate people-oriented behaviors, employees tend to be more satisfied and react more positively. However, when leaders are task-oriented, productivity tends to be a bit higher[261]. Moreover, the situation in which these behaviors are demonstrated seems to matter. In small companies, task-oriented behaviors were found to be more effective than in large companies[262]. There is also some evidence that working under a leader with very high levels of task-oriented behaviors may cause burnout on the part of employees.[263]

Leader Decision Making

Another question behavioral researchers focused on was how leaders actually make decisions, and the influence of decision-making styles on leader effectiveness and employee reactions. Three types of decision-making styles were studied. In authoritarian decision making, leaders make the decision alone without necessarily involving employees in the decision-making process. When leaders use democratic decision making, employees participate in the making of the

decision. Finally, leaders using laissez-faire decision making leave employees alone to make the decision; the leader provides minimum guidance and involvement in the decision.

As with other lines of research on leadership, research did not identify one decision-making style as the best one. It seems that the effectiveness of the style the leader is using depends on the circumstances. A review of the literature shows that when leaders use more democratic decision-making styles, employees tend to be more satisfied, but the effects on decision quality or employee productivity are weaker. Moreover, instead of expecting to be involved in every single decision, employees seem to care more about the overall participativeness of the organizational climate.[264] Different types of employees may also expect different levels of involvement. In a study conducted in a research organization, scientists viewed democratic leadership most favorably and authoritarian leadership least favorably[265], but employees working in large groups where opportunities for member interaction was limited preferred authoritarian leader decision making.[266]

Finally, the effectiveness of each style seems to depend on who is using it. There are examples of effective leaders using both authoritarian and democratic styles. For example, Larry Page and Sergey Brin at Google are known for their democratic decision-making styles. At Hyundai USA, high-level managers use authoritarian decision-making styles, and the company is performing well.[267]

The track record of the laissez-faire decision-making style is more problematic. Research shows that this style is negatively related to employee satisfaction with leaders and leader effectiveness[268]. Laissez-

Figure 57 Google cofounders Larry Page and Sergey Brin (shown here) are known for their democratic decision-making styles. Source: http://commons.wikimedia.org/wiki/Image:Sergey_Brin,_Web_2.0_Conference.jpg

faire leaders create high levels of ambiguity about job expectations on the part of employees, and employees also engage in higher levels of conflict when leaders are using the laissez-faire style.[269]

Limitations of Behavioral Approaches

Behavioral approaches, similar to trait approaches, fell out of favor because they neglected the environment in which behaviors are demonstrated. The hope of the researchers was that the identified behaviors would predict leadership under all circumstances, but it may be unrealistic to expect that a given set of behaviors would work under all circumstances. What makes a high school principal effective on the job may be very different from what makes a military leader, which would be different from behaviors creating success in small or large business enterprises. It turns out that specifying the conditions under which these behaviors are more effective may be a better approach.

KEY TAKEAWAYS

- When researchers failed to identify a set of traits that would distinguish effective from ineffective leaders, research attention turned to the study of leader behaviors.

- Leaders may demonstrate task-oriented and people-oriented behaviors. Both seem to be related to important outcomes, with task-oriented behaviors more strongly relating to leader effectiveness and people-oriented behaviors leading to employee satisfaction.

- Leaders can also make decisions using authoritarian, democratic, or laissez-faire styles. While laissez-faire has certain downsides, there is no best style and the effectiveness of each style seems to vary across situations.

- Because of the inconsistency of results, researchers realized the importance of the context in which leadership occurs, which paved the way to contingency theories of leadership.

What Is the Role of the Context? Contingency Approaches to Leadership

LEARNING OBJECTIVES

1. Learn about the major situational conditions that determine the effectiveness of different leadership styles.
2. Identify the conditions under which highly task-oriented and highly people-oriented leaders can be successful based on Fiedler's contingency theory.
3. Discuss the main premises of the Path-Goal theory of leadership.
4. Describe a method by which leaders can decide how democratic or authoritarian their decision making should be.

What is the best leadership style? By now, you must have realized that this may not the right question to ask. Instead, a better question might be: under which conditions are different leadership styles more effective? After the disappointing results of trait and behavioral approaches, several scholars developed leadership theories that specifically incorporated the role of the environment. Researchers started following a contingency approach to leadership—rather than trying to identify traits or behaviors that would be effective under all conditions, the attention moved toward specifying the situations under which different styles would be effective.

Fiedler's Contingency Theory

The earliest and one of the most influential contingency theories was developed by Frederick Fiedler[270]. According to the theory, a leader's style is measured by a scale called Least Preferred Coworker (LPC) scale. People who are filling out this survey are asked to think of a person who is their least preferred coworker. Then,

they rate this person in terms of how friendly, nice, and cooperative this person is. Imagine someone you did not enjoy working with. Can you describe this person in positive terms? In other words, if you can say that the person you hated working with was still a nice person, you would have a high LPC score. This means that you have a people-oriented personality and you can separate your liking of a person from your ability to work with that person. However, if you think that the person you hated working with was also someone you did not like on a personal level, you would have a low LPC score. To you, being unable to work with someone would mean that you also dislike that person. In other words, you are a task-oriented person.

According to Fiedler's theory, different people can be effective in different situations. The LPC score is akin to a personality trait and is not likely to change. Instead, placing the right people in the right situation or changing the situation is important to increase a leader's effectiveness. The theory predicts that in "favorable" and "unfavorable" situations, a low LPC leader—one who has feelings of dislike for coworkers who are difficult to work with—would be successful. When situational favorableness is medium, a high LPC leader—one who is able to personally like coworkers who are difficult to work with—is more likely to succeed.

How does Fiedler determine whether a situation is favorable, medium, or unfavorable? There are three conditions creating situational favorableness: (1) leader-subordinate relations, (2) position power, and (3) task structure. If the leader has a good relationship with most people, has high position power, and the task is structured, the situation is very favorable. When the leader has low-quality relations with employees, has low position power, and the task is relatively unstructured, the situation is very unfavorable.

Research partially supports the predictions of Fiedler's contingency theory[271]. Specifically, there is more support for the theory's predictions about when low LPC leadership should be used, but the part about when high LPC leadership would be more effective received less support. Even though the theory was not supported in

its entirety, it is a useful framework to think about when task- versus people-oriented leadership may be more effective. Moreover, the theory is important because of its explicit recognition of the importance of the context of leadership.

Situational favorableness	Leader-subordinate relations	Position Power	Task structure	Best Style ⬇
Favorable	Good	High	High	Low LPC Leader
	Good	High	Low	
	Good	Low	High	
Medium	Good	Low	Low	High LPC Leader
	Poor	High	High	
	Poor	High	Low	
	Poor	Low	High	
Unfavorable	Poor	Low	Low	Low LPC leader

Figure 58 Situational Favorableness[272]

Situational Leadership

Another contingency approach to leadership is Kenneth Blanchard and Paul Hersey's Situational Leadership Theory (SLT) which argues that leaders must use different leadership styles depending on their followers' development level[273]. According to this model, employee readiness (defined as a combination of their competence and commitment levels) is the key factor determining the proper leadership style. This approach has been highly popular with 14 million managers across 42 countries undergoing SLT training and 70% of *Fortune* 500 companies employing its use.[274]

The model summarizes the level of directive and supportive behaviors that leaders may exhibit. The model argues that to be effective, leaders must use the right style of behaviors at the right time in each employee's development. It is recognized that followers are key to a leader's success. Employees who are at the earliest stages of developing are seen as being highly committed but with low competence for the tasks. Thus, leaders should be highly directive and less supportive. As the

employee becomes more competent, the leader should engage in more coaching behaviors. Supportive behaviors are recommended once the employee is at moderate to high levels of competence. And finally, delegating is the recommended approach for leaders dealing with employees who are both highly committed and highly competent. While the SLT is popular with managers, relatively easy to understand and use, and has endured for decades, research has been mixed in its support of the basic assumptions of the model[275]. Therefore, while it can be a useful way to think about matching behaviors to situations, overreliance on this model, at the exclusion of other models, is premature.

Table 7 Situational Leadership Theory helps leaders match their style to follower readiness levels.

Follower Readiness Level	Competence (Low)	Competence (Low)	Competence (Moderate to High)	Competence (High)
	Commitment (High)	Commitment (Low)	Commitment (Variable)	Commitment (High)
Recommended Leader Style	Directing Behavior	Coaching Behavior	Supporting Behavior	Delegating Behavior

Path-Goal Theory of Leadership

Robert House's path-goal theory of leadership is based on the expectancy theory of motivation[276]. Expectancy theory of motivation suggests that employees are motivated when they believe—or expect—that (1) their effort will lead to high performance, (2) their high performance will be rewarded, and (3) the rewards they will receive are valuable to them. According to the path-goal theory of leadership, the leader's main job is to make sure that all three of these conditions exist. Thus, leaders will create satisfied and high-performing employees by making sure that employee effort leads to performance, and their performance is rewarded. The leader removes roadblocks along the way and creates an environment that subordinates find motivational.

The theory also makes specific predictions about what type of leader behavior will be effective under which circumstances.[277] The theory identifies four leadership

styles. Each of these styles can be effective, depending on the characteristics of employees (such as their ability level, preferences, locus of control, achievement motivation) and characteristics of the work environment (such as the level of role ambiguity, the degree of stress present in the environment, the degree to which the tasks are unpleasant).

Four Leadership Styles

Path-goal theory of leadership identifies four styles leaders may adopt. Directive leaders provide specific directions to their employees. They lead employees by clarifying role expectations, setting schedules, and making sure that employees know what to do on a given workday. The theory predicts that the directive style will work well when employees are experiencing role ambiguity on the job. If people are unclear about how to go about doing their jobs, giving them specific directions will motivate them. However, if employees already have role clarity, and if they are performing boring, routine, and highly structured jobs, giving them direction does not help. In fact, it may hurt them by creating an even more restricting atmosphere. Directive leadership is also thought to be less effective when employees have high levels of ability. When managing professional employees with high levels of expertise and job-specific knowledge, telling them what to do may create a low empowerment environment, which impairs motivation.

Supportive leaders provide emotional support to employees. They treat employees well, care about them on a personal level, and are encouraging. Supportive leadership is predicted to be effective when employees are under a lot of stress or when they are performing boring and repetitive jobs. When employees know exactly how to perform their jobs but their jobs are unpleasant, supportive leadership may also be effective.

Participative leaders make sure that employees are involved in making important decisions. Participative leadership may be more effective when employees have high levels of ability and when the decisions to be made are personally relevant to them. For employees who have a high internal locus of control, or the belief that

they can control their own destinies, participative leadership gives employees a way of indirectly controlling organizational decisions, which will be appreciated.

Achievement-oriented leaders set goals for employees and encourage them to reach their goals. Their style challenges employees and focuses their attention on work-related goals. This style is likely to be effective when employees have both high levels of ability and high levels of achievement motivation.

Situation	Appropriate Leadership Style
• When employees have high role ambiguity • When employees have low abilities • When employees have external locus of control	Directive
• When tasks are boring and repetitive • When tasks are stressful	Supportive
• When employees have high abilities • When the decision is relevant to employees • When employees have high internal locus of control	Participative
• When employees have high abilities • When employees have high achievement motivation	Achievement-oriented

Figure 59 Predictions of Path-Goal Theory[278]

The path-goal theory of leadership has received partial but encouraging levels of support from researchers. Because the theory is highly complicated, it has not been fully and adequately tested[279]. The theory's biggest contribution may be that it highlights the importance of a leader's ability to change styles, depending on the circumstances. Unlike Fiedler's contingency theory, in which the leader's style is assumed to be fixed and only the environment can be changed, House's path-goal theory underlines the importance of varying one's style, depending on the situation.

Vroom and Yetton's Normative Decision Model
Yale School of Management professor Victor Vroom and his colleagues Philip

Yetton and Arthur Jago developed a decision-making tool to help leaders determine how much involvement they should seek when making decisions[280]. The model starts by having leaders answer several key questions and working their way through a funnel based on their responses.

Let's try it. Imagine that you want to help your employees lower their stress so that you can minimize employee absenteeism. There are a number of approaches you could take to reduce employee stress, such as offering gym memberships, providing employee assistance programs, establishing a nap room, and so forth. Let's refer to the model and start with the first question. As you answer each question as high (H) or low (L), follow the corresponding path down the funnel.

1. *Decision significance.* The decision has high significance because the approach chosen needs to be effective at reducing employee stress for the insurance premiums to be lowered. In other words, there is a quality requirement to the decision. Follow the path through H.

2. *Importance of commitment.* Does the leader need employee cooperation to implement the decision? In our example, the answer is high, because employees may simply ignore the resources if they do not like them. Follow the path through H.

3. *Leader expertise.* Does the leader have all the information needed to make a high-quality decision? In our example, leader expertise is low. You do not have information regarding what your employees need or what kinds of stress reduction resources they would prefer. Follow the path through L.

4. *Likelihood of commitment.* If the leader makes the decision alone, what is the likelihood that the employees would accept it? Let's assume that the answer is Low. Based on the leader's experience with this group, they would likely ignore the decision if the leader makes it alone. Follow the path from L.

5. *Goal alignment.* Are the employee goals aligned with organizational goals? In this instance, employee and organizational goals may be aligned because you both want to ensure that employees are healthier. So let's say the alignment is high, and follow H.

6. *Group expertise.* Does the group have expertise in this decision-making area? The group in question has little information about which alternatives are costlier or more user friendly. We'll say group expertise is low. Follow the path from L.

7. *Team competence.* What is the ability of this particular team to solve the problem? Let's imagine that this is a new team that just got together and they have little demonstrated expertise to work together effectively. We will answer this as low, or L.

Based on the answers to the questions we gave, the normative approach recommends consulting employees as a group. In other words, the leader may make the decision alone after gathering information from employees and is not advised to delegate the decision to the team or to make the decision alone with no input from the team members.

Vroom and Yetton's model is somewhat complicated, but research results support the validity of the model. On average, leaders using the style recommended by the model tend to make more effective decisions compared with leaders using a style not recommended by the model.[281]

Decision Significance	Importance of Commitment	Leader Expertise	Likelihood of Commitment	Goal Alignment	Group Expertise	Team Competence	
H	H	H	H	-	-	-	Decide
H	H	H	L	H	H	H	Facilitate
H	H	H	L	H	H	L	Consult (Group)
H	H	H	L	H	L	-	Consult (Group)
H	H	H	L	L	-	-	Consult (Group)
H	H	L	H	H	H	H	Delegate
H	H	L	H	H	H	L	Consult (Individually)
H	H	L	H	H	L	-	Consult (Individually)
H	H	L	H	L	-	-	Consult (Individually)
H	H	L	L	H	H	H	Facilitate
H	H	L	L	H	H	L	Consult (Group)
H	H	L	L	H	L	-	Consult (Group)
H	H	L	L	L	-	-	Consult (Group)
H	L	H	-	-	-	-	Decide
H	L	L	-	H	H	H	Facilitate
H	L	L	-	H	H	L	Consult (Individually)
H	L	L	-	H	L	-	Consult (Individually)
H	L	L	-	L	-	-	Consult (Individually)
L	H	-	H	-	-	-	Decide
L	H	-	L	-	-	H	Delegate
L	H	-	L	-	-	L	Facilitate
L	L	-	-	-	-	-	Decide

Figure 60 Vroom and Yetton's leadership decision tree shows leaders which styles will be most effective in different situations. Used by permission from Victor H. Vroom.

Contemporary Approaches to Leadership

LEARNING OBJECTIVES

1. Learn about the difference between transformational and transactional leaders.

2. Find out about charismatic leadership and how it relates to leader performance.

3. Describe how high-quality leader-subordinate relationships develop.

4. Define servant leadership and evaluate its potential for leadership

effectiveness.

5. Define authentic leadership and evaluate its potential for leadership effectiveness.

What leadership theories make the greatest contributions to today's business environment? In this section, we will review the most recent developments in the field of leadership.

Transformational Leadership

Transformational leadership theory is a recent addition to the literature, but more research has been conducted on this theory than all the contingency theories combined. The theory distinguishes between transformational and transactional leaders. Transformational leaders lead employees by aligning employee goals with the leader's goals. Thus, employees working for transformational leaders start focusing on the company's well-being rather than on what is best for them as individual employees. However, transactional leaders ensure that employees demonstrate the right behaviors because the leader provides resources in exchange[282]. Transformational leaders have four tools in their possession, which they use to influence employees and create commitment to the company goals[283]. Further assessment of Bass's (1985) conceptualization of transactional and transformational leadership can be found here:[284]

First, transformational leaders are charismatic. Charisma refers to behaviors leaders demonstrate that inspire confidence, commitment, and admiration toward the leader[285]. Charismatic individuals have a "magnetic" personality that is appealing to followers. Leaders such as Barack Obama, John F. Kennedy, Ronald Reagan, Mahatma Gandhi, Mustafa Kemal Ataturk (founder of the Republic of Turkey), and Winston Churchill are viewed as charismatic. Second, transformational leaders use inspirational motivation or come up with a vision that is inspiring to others. Third is the use of intellectual stimulation, which means that they challenge organizational norms and status quo, and they encourage employees to think creatively and work harder. Finally, they use individualized

consideration, which means that they show personal care and concern for the well-being of their followers. Examples of transformational business leaders include Steve Jobs of Apple; Lee Iacocca, who transformed Chrysler in the 1980s; and Jack Welch, who was the CEO of General Electric for 20 years. Each of these leaders is charismatic and is held responsible for the turnarounds of their companies.

While transformational leaders rely on their charisma, persuasiveness, and personal appeal to change and inspire their companies, transactional leaders use three other methods. Contingent rewards mean rewarding employees for their accomplishments. Active management by exception involves leaving employees to do their jobs without interference, but at the same time proactively predicting potential problems and preventing them from occurring. Passive management by exception is similar in that it involves leaving employees alone, but in this method, the manager waits until something goes wrong before coming to the rescue.

Which leadership style do you think is more effective, transformational or transactional? Research shows that transformational leadership is a powerful influence over leader effectiveness as well as employee satisfaction[286]. In fact, transformational leaders increase the intrinsic motivation of their followers, build more effective relationships with employees, increase performance and creativity of their followers, increase team performance, and create higher levels of commitment to organizational change efforts[287]. However, except for passive management by exception, the transactional leadership styles are also effective, and they also have positive influences over leader performance as well as employee attitudes[288]. To maximize their effectiveness, leaders are encouraged to demonstrate both transformational and transactional styles. They should also monitor themselves to avoid demonstrating passive management by exception or leaving employees to their own devices until problems arise.

Why is transformational leadership more effective? The key factor may be trust. Trust is the belief that the leader will show integrity, fairness, and predictability in

his or her dealings with others. Research shows that when leaders demonstrate transformational leadership behaviors, followers are more likely to trust the leader. The tendency to trust in transactional leaders is substantially lower. Because transformational leaders express greater levels of concern for people's well-being, and appeal to people's values, followers are more likely to believe that the leader has a trustworthy character.[289]

Is transformational leadership genetic? Some people assume that charisma is something people are born with. You either have charisma or you don't. However, research does not support this idea. We must acknowledge that there is a connection between some personality traits and charisma. Specifically, people who have a neurotic personality tend to demonstrate lower levels of charisma, and people who are extraverted tend to have higher levels of charisma. However, personality explains only around 10% of the variance in charisma[290]. A large body of research has shown that it is possible to train people to increase their charisma and increase their transformational leadership.[291]

Figure 61 Mustafa Kemal Ataturk, the founder of Turkish Republic and its first president, is known as a charismatic leader. He is widely admired and respected in Turkey and around the world. His picture appears in all schools, state buildings, denominations of Turkish lira, and in many people's homes in Turkey. Source: http://commons.wikimedia.org/wiki/File:Ataturk_and_flag_of_Turkey.jpg

Even if charisma may be teachable, a more fundamental question remains: is it really needed? Charisma is only one element of transformational leadership and leaders can be effective without charisma. In fact, charisma has a dark side. For every charismatic hero such as Lee Iacocca, Steve Jobs, and Virgin's Sir Richard Branson, there are charismatic personalities who harmed their organizations or nations, such as Adolph Hitler of Germany and Jeff Skilling of Enron. Leadership experts warn that when organizations are in a crisis, a board of directors or hiring manager may turn to heroes who they hope will save the organization and sometimes hire people who have no other particular qualifications

outside of perceived charisma[292]. An interesting study shows that when companies have performed well, their CEOs are perceived as charismatic, but CEO charisma has no relation to the future performance of a company.[293] Does CEO charisma matter? An empirical analysis of the relationships among organizational performance, environmental uncertainty, and top management team perceptions of CEO charisma[294]. So, what we view as someone's charisma may be largely because of their association with a successful company, and the success of a company depends on a large set of factors, including industry effects and historical performance. While it is true that charismatic leaders may sometimes achieve great results, the search for charismatic leaders under all circumstances may be irrational.

Leader-Member Exchange Theory

Leader-member exchange (LMX) theory proposes that the type of relationship leaders have with their followers (members of the organization) is the key to understanding how leaders influence employees. Leaders form different types of relationships with their employees. In high-quality LMX relationships, the leader forms a trust-based relationship with the member. The leader and member like each other, help each other when needed, and respect one another. In these relationships, the leader and the member are both ready to go above and beyond their job descriptions to promote the other's ability to succeed. In contrast, in low-quality LMX relationships, the leader and the member have lower levels of trust, liking, and respect toward each other. These relationships do not have to involve actively disliking each other, but the leader and member do not go beyond their formal job descriptions in their exchanges. In other words, the member does his or her job, the leader provides rewards and punishments, and the relationship does not involve high levels of loyalty or obligation toward each other[295].
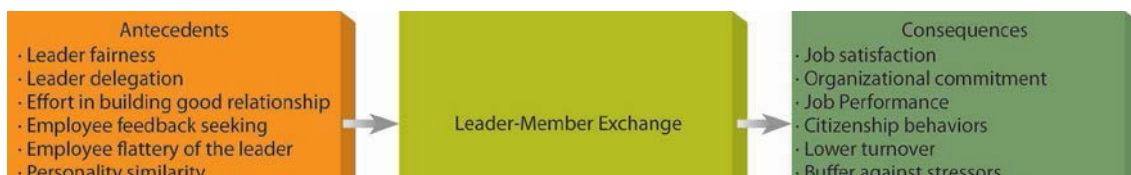
Figure 62 Factors Contributing to the Development of a High-Quality Leader- Member Exchange and Its Consequences

If you have work experience, you may have witnessed the different types of relationships managers form with their employees. In fact, many leaders end up developing differentiated relationships with their followers. Within the same work group, they may have in-group members who are close to them and out- group members who are more distant. If you have ever been in a high-quality LMX relationship with your manager, you may attest to its advantages. Research shows that high-quality LMX members are more satisfied with their jobs, more committed to their companies, have higher levels of clarity about what is expected of them, and perform at a higher level[296]. Their high levels of performance may not be a surprise because they may receive higher levels of resources and help from their managers as well as more information and guidance. If they have questions, these employees feel more comfortable seeking feedback or information[297]. Because of all the help, support, and guidance they receive, those employees who have a good relationship with the manager are in a better position to perform well. Given all they receive, these employees are motivated to reciprocate to the manager, and therefore they demonstrate higher levels of citizenship behaviors such as helping the leader and coworkers.[298]

Being in a high-quality LMX relationship is also advantageous because a high-quality relationship is a buffer against many stressors, such as being a misfit in a company, having personality traits that do not match job demands, and having unmet expectations[299]. The list of benefits high-quality LMX employees receive is long, and it is not surprising that these employees are less likely to leave their jobs[300]. The problem, of course, is that not all employees have a high-quality relationship, and those who are in the leader's out-group may suffer as a result. But how do you end up developing such a high-quality relationship with the leader? That seems to depend on many factors. Managers can help develop such a high-quality and trust-based relationship by treating their employees in a fair and dignified manner[301]. They can also test to see whether the employee is trustworthy by delegating certain tasks when the employee first starts working with the manager[302].

Employees also have an active role in developing the relationship. Employees can seek feedback to improve their performance, be open to learning new things on the job, and engage in political behaviors such as flattery[303]. Interestingly, high performance on the employee's part does not seem to be enough to develop a high-quality exchange with the leader. Instead, interpersonal factors such as personality similarity and liking are more powerful influences over how the relationship develops.[304] Finally, the relationship development occurs in a slightly different manner in different types of companies; corporate culture matters in how leaders develop these relationships. In performance-oriented cultures, how the leader distributes rewards seem to be the relevant factor, whereas in people-oriented cultures, whether the leader treats people with dignity is more relevant.[305]

Should you worry if you do not have a high-quality relationship with your manager? One problem in a low-quality exchange is that you may not have access to the positive work environment available to the high-quality LMX members. Second, low LMX employees may feel that their situation is unfair. Even when their objective performance does not warrant it, those who have a good relationship with the leader tend to receive positive performance appraisals[306]. Moreover, they are more likely to be given the benefit of the doubt. For example, when they succeed, the manager is more likely to think that they succeeded because they put forth a lot of effort and they had high abilities, whereas for low LMX members who perform objectively well, the manager is less likely to think so[307]. In other words, the leader may interpret the same situation differently, depending on which employee is involved and may reward low LMX employees less even when they are performing well. In short, those with a low-quality relationship with the leader may experience a work environment that may not be very supportive or fair.

Despite its negative consequences, we cannot say that all employees want to have a high-quality relationship with the leader. Some employees may genuinely dislike the leader and may not value the rewards in the leader's possession. If the leader is not well liked in the company and is known as abusive or unethical, being close to such a person may imply guilt by association. For employees who have no

interest in advancing their careers in the current company (such as a student employee who is working in retail but has no interest in retail as a career), having a low-quality exchange may afford the opportunity to just do one's job without having to go above and beyond these job requirements. Finally, not all leaders are equally capable of influencing their employees by having a good relationship with their employees: It also depends on the power and influence of the leader in the overall company and how the leader himself or herself is treated within the company. Leaders who are more powerful will have more to share with employees who are close to them[308].

What LMX theory implies for leaders is that one way of influencing employees is through the types of relationships leaders form with their employees. These relationships develop naturally because of the work-related and personal interactions between the manager and the employee. Because they occur naturally, some leaders may not be aware of the power that lies in them. These relationships have an important influence over employee attitudes and behaviors. In the worst case, they have the potential to create a negative work environment characterized by favoritism and unfairness. Therefore, managers are advised to be aware of how they build these relationships; put forth effort in cultivating these relationships consciously; be open to forming good relationships to people from all backgrounds regardless of their permanent characteristics such as sex, race, age, or disability status; and prevent these relationships from leading to an unfair work environment.

Self-Assessment: Rate Your LMX[309]
Answer the following questions using 1 = not at all, 2 = somewhat, 3 = fully agree

1. _____ I like my supervisor very much as a person.
2. _____ My supervisor is the kind of person one would like to have as a friend.
3. _____ My supervisor is a lot of fun to work with.
4. _____ My supervisor defends my work actions to a superior, even without complete knowledge of the issue in question.

5. _____ My supervisor would come to my defense if I were "attacked" by others.

6. _____ My supervisor would defend me to others in the organization if I made an honest mistake.

7. _____ I do work for my supervisor that goes beyond what is specified in my job description.

8. _____ I am willing to apply extra efforts, beyond those normally required, to further the interests of my work group.

9. _____ I do not mind working my hardest for my supervisor.

10. _____ I am impressed with my supervisor's knowledge of his/her job.

11. _____ I respect my supervisor's knowledge of and competence on the job.

12. _____ I admire my supervisor's professional skills.

Scoring:

Add your score for 1, 2, 3 = _____ This is your score on the Liking factor of LMX. A score of 3 to 4 indicates a low LMX in terms of liking. A score of 5 to 6 indicates an average LMX in terms of liking. A score of 7+ indicates a high-quality LMX in terms of liking.

Add your score for 4, 5, 6 = _____ This is your score on the Loyalty factor of LMX. A score of 3 to 4 indicates a low LMX in terms of loyalty. A score of 5 to 6 indicates an average LMX in terms of loyalty. A score of 7+ indicates a high-quality LMX in terms of loyalty.

Add your score for 7, 8, 9 = _____ This is your score on the Contribution factor of LMX. A score of 3 to 4 indicates a low LMX in terms of contribution. A score of 5 to 6 indicates an average LMX in terms of contribution. A score of 7+ indicates a high-quality LMX in terms of contribution.

Add your score for 10, 11, 12 = _____ This is your score on the Professional Respect factor of LMX. A score of 3 to 4 indicates a low LMX in terms of

professional respect. A score of 5 to 6 indicates an average LMX in terms of professional respect. A score of 7+ indicates a high-quality LMX in terms of professional respect.

Servant Leadership

The early 21st century has been marked by a series of highly publicized corporate ethics scandals: between 2000 and 2003, we witnessed Enron, WorldCom, Arthur Andersen, Qwest, and Global Crossing shake investor confidence in corporations and leaders. The importance of ethical leadership and keeping long-term interests of stakeholders in mind is becoming more widely acknowledged.

Servant leadership approach defines the leader's role as serving the needs of others. According to this approach, the primary mission of the leader is to develop employees and help them reach their goals. Servant leaders put their employees first, understand their personal needs and desires, empower them, and help them develop in their careers. Unlike mainstream management approaches, the overriding objective in servant leadership is not necessarily getting employees to contribute to organizational goals. Instead, servant leaders feel an obligation to their employees, customers, and the external community. Employee happiness is seen as an end in itself, and servant leaders sometimes sacrifice their own well-being to help employees succeed. In addition to a clear focus on having a moral compass, servant leaders are also interested in serving the community. In other words, their efforts to help others are not restricted to company insiders, and they are genuinely concerned about the broader community surrounding their company[310]. According to historian Doris Kearns Goodwin, Abraham Lincoln was a servant leader because of his balance of social conscience, empathy, and generosity.[311]

Even though servant leadership has some overlap with other leadership approaches such as transformational leadership, its explicit focus on ethics, community development, and self-sacrifice are distinct characteristics of this leadership style. Research shows that servant leadership has a positive effect on

employee commitment, employee citizenship behaviors toward the community (such as participating in community volunteering), and job performance[312]. Leaders who follow the servant leadership approach create a climate of fairness in their departments, which leads to higher levels of interpersonal helping behavior.[313]

Servant leadership is a tough transition for many managers who are socialized to put their own needs first, be driven by success, and tell people what to do. In fact, many of today's corporate leaders are not known for their humility! However, leaders who have adopted this approach attest to its effectiveness. David Wolfskehl, of Action Fast Print in New Jersey, founded his printing company when he was 24. He marks the day he started asking employees what he can do for them as the beginning of his company's new culture. In the next two years, his company increased its productivity by 30%.[314]

Authentic Leadership

Leaders have to be a lot of things to a lot of people. They operate within different structures, work with different types of people, and they have to be adaptable. At times, it may seem that a leader's smartest strategy would be to act as a social chameleon, changing his or her style whenever doing so seems advantageous. But this would lose sight of the fact that effective leaders have to stay true to themselves. The authentic leadership approach embraces this value: its key advice is "be yourself." Think about it: We all have different backgrounds, different life experiences, and different role models. These trigger events over the course of our lifetime that shape our values, preferences, and priorities. Instead of trying to fit into societal expectations about what a leader should be like, act like, or look like, authentic leaders derive their strength from their own past experiences. Thus, one key characteristic of authentic leaders is that they are self- aware. They are introspective, understand where they are coming from, and have a thorough understanding of their own values and priorities. Second, they are not afraid to act the way they are. In other words, they have high levels of personal integrity. They say what they think. They behave in a way consistent with their values—they practice what they preach. Instead of trying to imitate other great leaders, they find

their style in their own personality and life experiences.[315]

One example of an authentic leader is Howard Schultz, the founder of Starbucks coffeehouses. As a child, Schultz witnessed the job-related difficulties his father experienced because of medical problems. Even though he had no idea he would have his own business one day, the desire to protect people was shaped in those years and became one of his foremost values. When he founded Starbucks, he became an industry pioneer in providing health insurance and retirement coverage to part-time as well as full-time employees.[316]
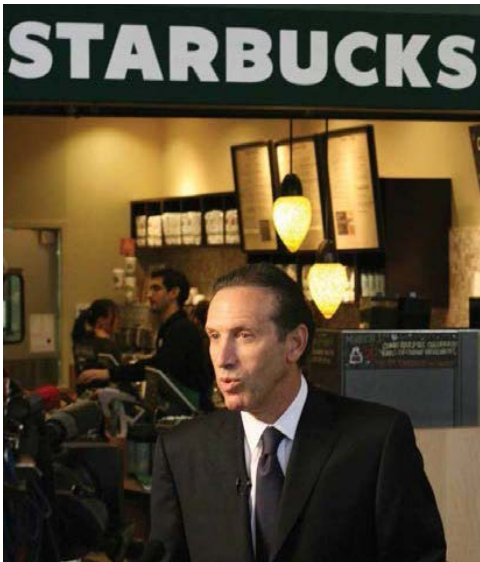
Figure 63 An example of an authentic leader is Howard Schultz, the founder of Starbucks coffeehouses. Witnessing his father losing jobs because of medical problems, he became passionate about a company's need to care for its employees. Source: http://upload.wikimedia.org/wikipedia/commons/archive/a/ae/20081006001508!Howard-Schultz-Starbucks.jpg

Authentic leadership requires understanding oneself. Therefore, in addition to self-reflection, feedback from others is needed to gain a true understanding of one's behavior and effect on others. Authentic leadership is viewed as a potentially influential style because employees are more likely to trust such a leader. Moreover, working for authentic leaders is likely to lead to greater levels of satisfaction, performance, and overall well-being on the part of employees.[317]

Best-selling author Jim Collins studied companies that had, in his opinion, gone from good to great, and he found they had one thing in common[318]. All of these companies had what he calls Level 5 leaders who build organizations through their personal humility and professional will. He notes that Level 5 leaders are modest and understated. In many ways, they can be seen as truly authentic leaders.

KEY TAKEAWAYS

- Contemporary approaches to leadership include transformational leadership, leader-member exchange, servant leadership, and authentic leadership.

- The transformational leadership approach highlights the importance of leader charisma, inspirational motivation, intellectual stimulation, and individualized consideration as methods of influence.

- Its counterpart is the transactional leadership approach, in which the leader focuses on getting employees to achieve organizational goals.

- According to leader- member exchange (LMX) approach, the unique, trust-based relationships leaders develop with employees is the key to leadership effectiveness.

- Recently, leadership scholars started to emphasize the importance of serving others and adopting a customer-oriented view in leadership; another recent focus is on the importance of being true to oneself as a leader.

- While each leadership approach focuses on a different element of leadership, effective leaders will need to change their style based on the demands of the situation as well as using their own values and moral compass.

Chapter 9 Review Questions

Multiple Choice:
1. This personality trait is described as being tolerant, sensitive, and trusting.
    a. agreeableness
    b. conscientiousness
    c. neuroticism
    d. openness

2. A _____ leader provides minimum guidance and involvement in the decision.
    a. authoritarian
    b. command and control
    c. democratic
    d. laissez faire

3. _____ takes the maturity level of followers into account.
    a. Fiedler's contingency
    b. House's path goal
    c. situational Leadership
    d. Vroom and Yetton's normative decision model

4. _____ leadership asserts that the primary mission of the leader is to develop employees and help them reach their goals.
    a. authentic
    b. servant
    c. transactional
    d. transformational

Short Answer:
- Describe the four phases of Situational Leadership behavior.

- Describe how transactional differs from transformational leadership approach.

Chapter 10 Decision Making

Reading this chapter will help you do the following:

1. Understand what decision making is.

2. Know key causes of faulty decision making.

3. Compare and contrast individual and group decision making.

4. Understand how to develop your own personal decision-making skills.

Planning	Organizing	Leading	Controlling
1. Vision & Mission 2. Strategizing 3. Goals & Objectives	1. Organization Design 2. Culture 3. Social Networks	1. Leadership 2. Decision Making 3. Communications 4. Groups/Teams 5. Motivation	1. Systems/Processes 2. Strategic Human Resources

Figure 64 The P-O-L-C Framework

While leadership is a combination of many things, your characterization of particular leaders and their leadership effectiveness is often a reflection of the decisions that they have made or not made. In this chapter, you'll learn that while decisions are made every day within organizations, the process does not always go as well as it could. Understanding how decisions are made, how they can be biased, and how to make the decision-making process run smoothly will help you to be a more effective manager. But first, let's define decision making.

Understanding Decision Making

LEARNING OBJECTIVES

1. Define decision making.

2. Understand different types of decisions.

What Is Decision Making?
Decision making refers to making choices among alternative courses of action—

which may also include inaction. While it can be argued that management *is* decision making, half of the decisions made by managers within organizations fail[319]. Therefore, increasing effectiveness in decision making is an important part of maximizing your effectiveness at work. This chapter will help you understand how to make decisions alone or in a group while avoiding common decision- making traps.

Individuals throughout organizations use the information they gather to make a wide range of decisions. These decisions may affect the lives of others and change the course of an organization. For example, the decisions made by executives and consulting firms for Enron ultimately resulted in a $60 billion loss for investors, thousands of employees without jobs, and the loss of all employee retirement funds. But Sherron Watkins, a former Enron employee and now-famous whistleblower, uncovered the accounting problems and tried to enact change. Similarly, the decisions made by firms to trade in mortgage-backed securities is having negative consequences for the entire U.S. economy. Each of these people made a decision, and each person, as well as others, is now living with the consequences of his or her decisions.

Because many decisions involve an ethical component, one of the most important considerations in management is whether the decisions you are making as an employee or manager are ethical. Here are some basic questions you can ask yourself to assess the ethics of a decision.[320]

- Is this decision fair?
- Will I feel better or worse about myself after I make this decision?
- Does this decision break any organizational rules?
- Does this decision break any laws?
- How would I feel if this decision was broadcast on the news?

Types of Decisions
Despite the far-reaching nature of the decisions in the previous example, not all

decisions have major consequences or even require a lot of thought. For example, before you come to class, you make simple and habitual decisions such as what to wear, what to eat, and which route to take as you go to and from home and school. You probably do not spend much time on these mundane decisions. These types of straightforward decisions are termed programmed decisions; these are decisions that occur frequently enough that we develop an automated response to them. The automated response we use to make these decisions is called the decision rule. For example, many restaurants face customer complaints as a routine part of doing business. Because this is a recurring problem for restaurants, it may be regarded as a programmed decision. To deal with this problem, the restaurant might have a policy stating that every time they receive a valid customer complaint, the customer should receive a free dessert, which represents a decision rule. Making strategic, tactical, and operational decisions is an integral part of the planning function in the P-O-L-C (planning-organizing-leading-controlling) model.

However, decisions that are unique and important require conscious thinking, information gathering, and careful consideration of alternatives. These are called

Figure 65 To ensure consistency around the globe such as at this St. Petersburg, Russia, location, McDonald's trains all restaurant managers (over 65,000 so far) at Hamburger University where they take the equivalent of two years of college courses and learn how to make decisions. The curriculum is taught in 28 languages. Source: http://upload.wikimedia.org/wikipedia/commons/a/a2/McDonalds_in_St_Petersburg_2004.JPG

non-programmed decisions. For example, in 2005, McDonald's became aware of a need to respond to growing customer concerns regarding foods high in fat and calories. This is a non-programmed decision because for several decades, customers of fast-food restaurants were more concerned with the taste and price of the food, rather than the healthiness. In response, McDonald's decided to offer healthier alternatives, such as substituting apple slices in Happy Meals for French fries and discontinuing the use

of trans-fats. A crisis situation also constitutes a non-programmed decision for companies. For example, the leadership of Nutrorim was facing a tough decision. They had recently introduced a new product, ChargeUp with Lipitrene, an improved version of their popular sports drink powder, ChargeUp. But a phone call came from a state health department to inform them that several cases of gastrointestinal distress had been reported after people consumed the new product. Nutrorim decided to recall ChargeUp with Lipitrene immediately. Two weeks later, it became clear that the gastrointestinal problems were unrelated to ChargeUp with Lipitrene.

However, the damage to the brand and to the balance sheets was already done.

Level of Decision	Examples of Decision	Who Typically Makes Decisions
Strategic Decisions	Should we merge with another company? Should we pursue a new product line? Should we downsize our organization?	Top Management Teams, CEOs, and Boards of Directors
Tactical Decisions	What should we do to help facilitate employees from the two companies working together? How should we market the new product line? Who should be let go when we downsize?	Managers
Operational Decisions	How often should I communicate with my new coworkers? What should I say to customers about our new product? How will I balance my new work demands?	Employees throughout the organization

Figure 66 Decisions Commonly Made within Organizations

This unfortunate decision caused Nutrorim to rethink the way decisions were made under pressure so that they now gather information to make informed choices even when time is of the essence.[321]

Decision making can also be classified into three categories based on the level at which they occur. Strategic decisions set the course of organization. Tactical decisions are decisions about how things will get done. Finally, operational decisions are decisions that employees make each day to run the organization. For example, remember the restaurant that routinely offers a free dessert when a customer complaint is received. The owner of the restaurant made a strategic decision to have great customer service. The manager of the restaurant implemented the free dessert policy as a way to handle customer complaints, which is a tactical decision. And, the servers at the restaurant are making individual decisions each day evaluating whether each customer complaint received is legitimate to warrant a free dessert.

In this chapter, we are going to discuss different decision-making models designed to understand and evaluate the effectiveness of non-programmed decisions. We will cover four decision-making approaches starting with the rational decision-making model, moving to the bounded rationality decision- making model, the intuitive decision-making model, and ending with the creative decision-making model.

Making Rational Decisions

The rational decision-making model describes a series of steps that decision makers should consider if their goal is to maximize the quality of their outcomes. In other words, if you want to make sure you make the best choice, going through the formal steps of the rational decision-making model may make sense.

Let's imagine that your old, clunky car has broken down and you have enough money saved for a substantial down payment on a new car. It is the first major purchase of your life, and you want to make the right choice. The first step, therefore, has already been completed—we know that you want to buy a new car.

Next, in step 2, you'll need to decide which factors are important to you. How many passengers do you want to accommodate? How important is fuel economy to you? Is safety a major concern? You only have a certain amount of money saved, and you don't want to take on too much debt, so price range is an important factor as well. If you know you want to have room for at least five adults, get at least 20 miles per gallon, drive a car with a strong safety rating, not spend more than $22,000 on the purchase, and like how it looks, you've identified the decision criteria. All of the potential options for purchasing your car will be evaluated against these criteria.

Before we can move too much further, you need to decide how important each factor is to your decision in step 3. If each is equally important, then there is no
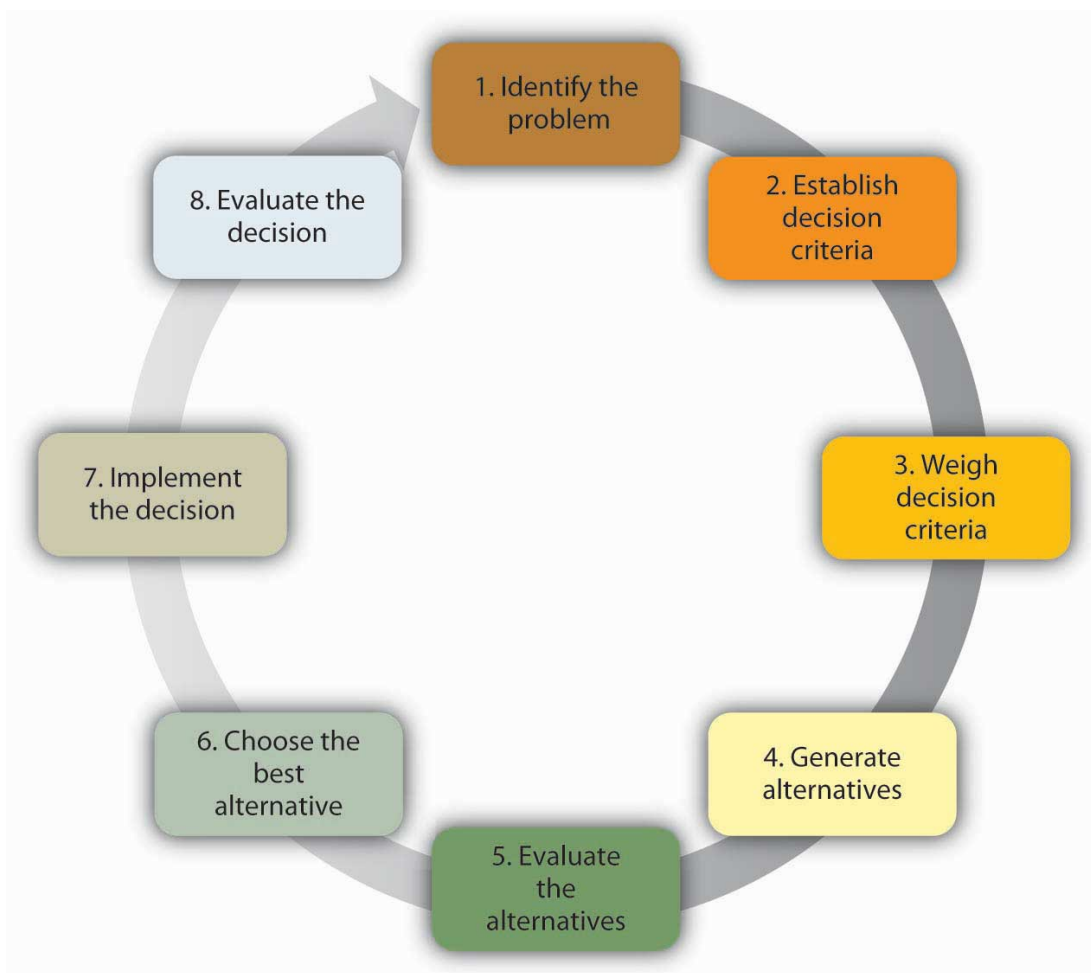
Figure 67 Steps in the Rational Decision-Making Model

need to weight them, but if you know that price and gas mileage are key factors, you might weight them heavily and keep the other criteria with medium importance. Step 4 requires you to generate all alternatives about your options. Then, in step 5, you need to use this information to evaluate each alternative against the criteria you have established. You choose the best alternative (step 6) and you go out and buy your new car (step 7).

Of course, the outcome of this decision will be related to the next decision made; that is where the evaluation in step 8 comes in. For example, if you purchase a car but have nothing but problems with it, you are unlikely to consider the same make and model in purchasing another car the next time!

While decision makers can get off track during any of these steps, research shows that limiting the search for alternatives in the fourth step can be the most challenging and lead to failure. In fact, one researcher found that no alternative generation occurred in 85% of the decisions studied[322]. Conversely, successful managers are clear about what they want at the outset of the decision-making process, set objectives for others to respond to, carry out an unrestricted search for solutions, get key people to participate, and avoid using their power to push their perspective.[323]

The rational decision-making model has important lessons for decision makers. First, when making a decision you may want to make sure that you establish your decision criteria before you search for all alternatives. This would prevent you from liking one option too much and setting your criteria accordingly. For example, let's say you started browsing for cars before you decided your decision criteria. You may come across a car that you think really reflects your sense of style and make an emotional bond with the car. Then, because of your love for this car, you may say to yourself that the fuel economy of the car and the innovative braking system are the most important criteria. After purchasing it, you may realize that the car is too small for all of your friends to ride in the back seat when you and your brother are sitting in front, which was something you should have thought about! Setting

criteria before you search for alternatives may prevent you from making such mistakes. Another advantage of the rational model is that it urges decision makers to generate all alternatives instead of only a few. By generating a large number of alternatives that cover a wide range of possibilities, you are likely to make a more effective decision in which you do not need to sacrifice one criterion for the sake of another.

Despite all its benefits, you may have noticed that this decision-making model involves a number of unrealistic assumptions. It assumes that people understand what decision is to be made, that they know all their available choices, that they have no perceptual biases, and that they want to make optimal decisions. Nobel Prize–winning economist Herbert Simon observed that while the rational decision-making model may be a helpful tool for working through problems, it doesn't represent how decisions are frequently made within organizations. In fact, Simon argued that it didn't even come close!

Think about how you make important decisions in your life. Our guess is that you rarely sit down and complete all eight steps in the rational decision-making model. For example, this model proposed that we should search for all possible alternatives before making a decision, but this can be time consuming and individuals are often under time pressure to make decisions. Moreover, even if we had access to all the information, it could be challenging to compare the pros and cons of each alternative and rank them according to our preferences. Anyone who has recently purchased a new laptop computer or cell phone can attest to the challenge of sorting through the different strengths and limitations of each brand, model, and plans offered for support and arriving at the solution that best meets their needs.

In fact, the availability of too much information can lead to analysis paralysis, where more and more time is spent on gathering information and thinking about it, but no decisions actually get made. A senior executive at Hewlett-Packard admits that his company suffered from this spiral of analyzing things for too long to the

point where data gathering led to "not making decisions, instead of us making decisions[324]." Moreover, you may not always be interested in reaching an optimal decision. For example, if you are looking to purchase a house, you may be willing and able to invest a great deal of time and energy to find your dream house, but if you are looking for an apartment to rent for the academic year, you may be willing to take the first one that meets your criteria of being clean, close to campus, and within your price range.

Making "Good Enough" Decisions

The bounded rationality model of decision making recognizes the limitations of our decision-making processes. According to this model, individuals knowingly limit their options to a manageable set and choose the best alternative without conducting an exhaustive search for alternatives. An important part of the bounded rationality approach is the tendency to satisfice, which refers to accepting the first alternative that meets your minimum criteria. For example, many college graduates do not conduct a national or international search for potential job openings; instead, they focus their search on a limited geographic area and tend to accept the first offer in their chosen area, even if it may not be the ideal job situation. Satisficing is similar to rational decision making, but it differs in that rather than choosing the best choice and maximizing the potential outcome, the decision maker saves time and effort by accepting the first alternative that meets the minimum threshold.

Making Intuitive Decisions

The intuitive decision-making model has emerged as an important decision-making model. It refers to arriving at decisions without conscious reasoning. Eighty-nine percent of managers surveyed admitted to using intuition to make decisions at least sometimes, and 59% said they used intuition often[325]. When we recognize that managers often need to make decisions under challenging circumstances with time pressures, constraints, a great deal of uncertainty, highly visible and high-stakes outcomes, and within changing conditions, it makes sense that they would not have the time to formally work through all the steps of the

rational decision-making model. Yet when CEOs, financial analysts, and healthcare workers are asked about the critical decisions they make, seldom do they attribute success to luck. To an outside observer, it may seem like they are making guesses as to the course of action to take, but it turns out that they are systematically making decisions using a different model than was earlier suspected. Research on life-or-death decisions made by fire chiefs, pilots, and nurses finds that these experts do not choose among a list of well-thought-out alternatives. They don't decide between two or three options and choose the best one. Instead, they consider only one option at a time. The intuitive decision-making model argues that, in a given situation, experts making decisions scan the environment for cues to recognize patterns.[326]

Once a pattern is recognized, they can play a potential course of action through to its outcome based on their prior experience. Due to training, experience, and knowledge, these decision makers have an idea of how well a given solution may work. If they run through the mental model and find that the solution will not work, they alter the solution and retest it before setting it into action. If it still is not deemed a workable solution, it is discarded as an option and a new idea is tested until a workable solution is found. Once a viable course of action is identified, the decision maker puts the solution into motion. The key point is that only one choice is considered at a time. Novices are not able to make effective decisions this way because they do not have enough prior experience to draw upon.

Making Creative Decisions

In addition to the rational decision making, bounded rationality models, and intuitive decision making, creative decision making is a vital part of being an effective decision maker. Creativity is the generation of new, imaginative ideas. With the flattening of organizations and intense competition among organizations, individuals and organizations are driven to be creative in decisions ranging from cutting costs to creating new ways of doing business. Please note that, while creativity is the first step in the innovation process, creativity and innovation are not the same thing. Innovation begins with creative ideas, but it also involves realistic

planning and follow-through.

The five steps to creative decision making are similar to the previous decision-making models in some keys ways. All of the models include problem identification, which is the step in which the need for problem solving becomes apparent. If you do not recognize that you have a problem, it is impossible to solve it. Immersion is the step in which the decision maker thinks about the problem consciously and gathers information. A key to success in creative decision making is having or acquiring expertise in the area being studied. Then, incubation occurs. During incubation, the individual sets the problem aside and does not think about it for a while. At this time, the brain is actually working on the problem unconsciously. Then comes illumination or the insight moment, when the solution to the problem becomes apparent to the person, usually when it is least expected. This is the "eureka" moment similar to what happened to the ancient Greek inventor Archimedes, who found a solution to the problem he was working on while he was taking a bath. Finally, the verification and application stage happens when the decision maker consciously verifies the feasibility of the solution and implements the decision.

A NASA scientist describes his decision-making process leading to a creative outcome as follows: He had been trying to figure out a better way to deice planes to make the process faster and safer. After recognizing the problem, he had immersed himself in the literature to understand all the options, and he worked on the problem for months trying to figure out a solution. It was not until he was sitting outside of a McDonald's restaurant with his grandchildren that it dawned on him. The golden arches of the "M" of the McDonald's logo inspired his solution: he would design the deicer as a series of M's! Interview by author Talya Bauer at Ames Research Center, Mountain View, CA, 1990. This represented the illumination stage. After he tested and verified his creative solution, he was done with that problem except to reflect on the outcome and process.

Figure 68 The Creative Decision-Making Process

How Do You Know If Your Decision-Making Process Is Creative?

Researchers focus on three factors to evaluate the level of creativity in the decision-making process. Fluency refers to the number of ideas a person is able to generate. Flexibility refers to how different the ideas are from one another. If you are able to generate several distinct solutions to a problem, your decision-making process is high on flexibility. Originality refers to an idea's uniqueness. You might say that Reed Hastings, founder and CEO of Netflix, is a pretty creative person. His decision-making process shows at least two elements of creativity. We do not exactly know how many ideas he had over the course of his career, but his ideas are fairly different from one another. After teaching math in Africa with the Peace Corps, Hastings was accepted at Stanford University, where he earned a master's degree in computer science. Soon after starting work at a software company, he invented a successful debugging tool, which led to his founding the computer troubleshooting company Pure Software in 1991. After a merger and the subsequent sale of the resulting company in 1997, Hastings founded Netflix, which revolutionized the DVD rental business through online rentals with no late fees. In 2007, Hastings was elected to Microsoft's board of directors. As you can see, his ideas are high in originality and flexibility[327].
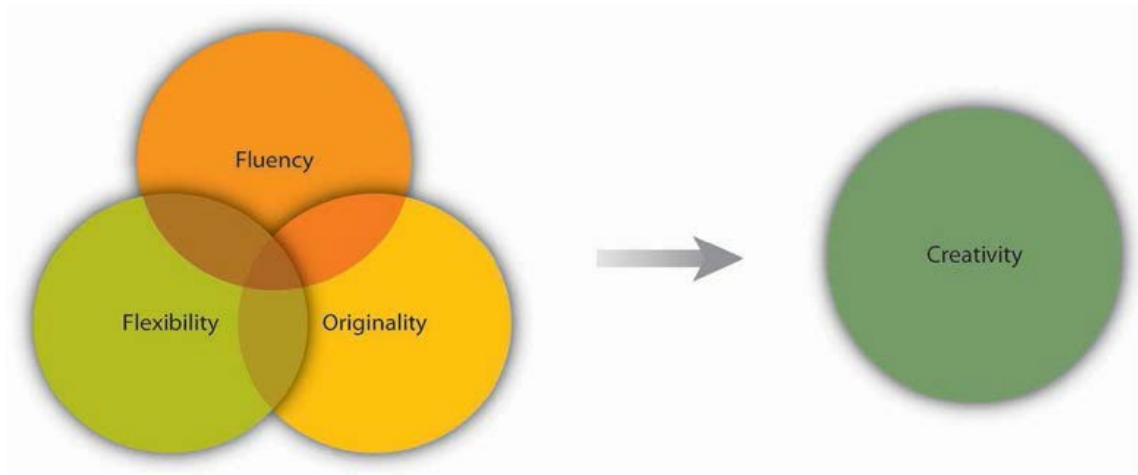
Figure 69 Dimensions of Creativity

Some experts have proposed that creativity occurs as an interaction among three factors: (1) people's personality traits (openness to experience, risk taking), (2) their attributes (expertise, imagination, motivation), and (3) the context (encouragement from others, time pressure, and physical structures)[328]. For example, research shows that individuals who are open to experience, are less conscientious, more self-accepting, and more impulsive, tend to be more creative.[329]

There are many techniques available that enhance and improve creativity. Linus Pauling, the Nobel Prize winner who popularized the idea that vitamin C could help build the immunity system, said, "The best way to have a good idea is to have a lot of ideas." One popular way to generate ideas is to use brainstorming. Brainstorming is a group process of generated ideas that follows a set of guidelines that include no criticism of ideas during the brainstorming process, the idea that no suggestion is too crazy, and building on other ideas (piggybacking). Research shows that the quantity of ideas actually leads to better idea quality in the end, so setting high idea quotas where the group must reach a set number of ideas before they are done, is recommended to avoid process loss and to maximize the effectiveness of brainstorming. Another unique aspect of brainstorming is that the more people are included in brainstorming, the better the decision outcome will be because the variety of backgrounds and approaches give the group more to draw from. A

variation of brainstorming is wildstorming where the group focuses on ideas that are impossible and then imagines what would need to happen to make them possible[330].

Ideas for Enhancing Organizational Creativity

We have seen that organizational creativity is vital to organizations. Here are some guidelines for enhancing organizational creativity within teams[331].

Team Composition (Organizing/Leading)

- *Diversify your team* to give them more inputs to build on and more opportunities to create functional conflict while avoiding personal conflict.
- *Change group membership* to stimulate new ideas and new interaction patterns.
- *Leaderless teams* can allow teams freedom to create without trying to please anyone up front.

Team Process (Leading)

- *Engage in brainstorming* to generate ideas—remember to set a high goal for the number of ideas the group should come up with, encourage wild ideas, and take brainwriting breaks.
- *Use the nominal group technique in person or electronically* to avoid some common group process pitfalls. Consider anonymous feedback as well.
- *Use analogies* to envision problems and solutions.

Leadership (Leading)

- *Challenge teams* so that they are engaged but not overwhelmed.
- *Let people decide how to achieve goals*, rather than telling them what goals to achieve.
- *Support and celebrate creativity* even when it leads to a mistake. But set up processes to learn from mistakes as well.
- *Model* creative behavior.

Culture (Organizing)

- *Institute organizational memory* so that individuals do not spend time on routine tasks.
- *Build a physical space conducive to creativity* that is playful and humorous—this is a place where ideas can thrive.
- *Incorporate creative behavior* into the performance appraisal process.

And finally, *avoiding groupthink* can be an important skill to learn.[332]

Decision Making Model	Use This Model When:
Rational	• Information on alternatives can be gathered and quantified. • The decision is important. • You are trying to maximize your outcome.
Bounded Rationality	• The minimum criteria are clear. • You do not have or you are not willing to invest much time to making the decision. • You are not trying to maximize your outcome.
Intuitive	• Goals are unclear. • There is time pressure and analysis paralysis would be costly. • You have experience with the problem.
Creative	• Solutions to the problem are not clear. • New solutions need to be generated. • You have time to immerse yourself in the issues.

Figure 70 Which decision-making model should I use?

The four different decision-making models—rational, bounded rationality, intuitive, and creative—vary in terms of how experienced or motivated a decision maker is to make a choice. Choosing the right approach will make you more effective at work and improve your ability to carry out all the P-O-L-C functions.

Faulty Decision Making

LEARNING OBJECTIVES

1. Understand overconfidence bias and how to avoid it.

2. Understand hindsight bias and how to avoid it.

3. Understand anchoring and how to avoid it.

4. Understand framing bias and how to avoid it.

5. Understand escalation of commitment and how to avoid it.

No matter which model you use, you need to know and avoid the decision-making traps that exist. Daniel Kahnemann (another Nobel Prize winner) and Amos Tversky spent decades studying how people make decisions. They found that individuals are influenced by overconfidence bias, hindsight bias, anchoring bias, framing bias, and escalation of commitment.

Potential Challenges to Decision Making:

Overconfidence Bias

Overconfidence bias occurs when individuals overestimate their ability to predict future events. Many people exhibit signs of overconfidence. For example, 82% of the drivers surveyed feel they are in the top 30% of safe drivers, 86% of students

at the Harvard Business School say they are better looking than their peers, and doctors consistently overestimate their ability to detect problems[333]. Much like a friend who is always 100% sure he can pick the winners of this week's football games despite evidence to the contrary, these individuals are suffering from overconfidence bias. People who purchase lottery tickets as a way to make money are probably suffering from overconfidence bias. It is three times more likely for a person driving 10 miles to buy a lottery ticket to be killed in a car accident than to win the jackpot.[334] To avoid this bias, take the time to stop and ask yourself whether you are being realistic in your judgments.

Hindsight Bias

Hindsight bias is the opposite of overconfidence bias, as it occurs when looking backward in time where mistakes made seem obvious after they have already occurred. In other words, after a surprising event occurred, many individuals are likely to think that they already knew this was going to happen. This may be because they are selectively reconstructing the events. Hindsight bias becomes a problem especially when judging someone else's decisions. For example, let's say a company driver hears the engine making unusual sounds before starting her morning routine. Being familiar with this car in particular, the driver may conclude that the probability of a serious problem is small and continue to drive the car. During the day, the car malfunctions, stranding her away from the office. It would be easy to criticize her decision to continue to drive the car because, in hindsight, the noises heard in the morning would make us believe that she should have known something was wrong and she should have taken the car in for service. However, the driver may have heard similar sounds before with no consequences, so based on the information available to her at the time, she may have made a reasonable choice. Therefore, it is important for decision makers to remember this bias before passing judgments on other people's actions.

Anchoring

Anchoring refers to the tendency for individuals to rely too heavily on a single piece of information. Job seekers often fall into this trap by focusing on a desired salary

while ignoring other aspects of the job offer such as additional benefits, fit with the job, and working environment. Similarly, but more dramatically, lives were lost in the Great Bear Wilderness Disaster when the coroner declared all five passengers of a small plane dead within five minutes of arriving at the accident scene, which halted the search effort for potential survivors, when, in fact, the next day two survivors walked out of the forest. How could a mistake like this have been made? One theory is that decision biases played a large role in this serious error; anchoring on the fact that the plane had been consumed by flames led the coroner to call off the search for any possible survivors.[335]

Framing Bias

Framing bias refers to the tendency of decision makers to be influenced by the way that a situation or problem is presented. For example, when making a purchase, customers find it easier to let go of a discount as opposed to accepting a surcharge, even though they both might cost the person the same amount of money. Similarly, customers tend to prefer a statement such as "85% lean beef" as opposed to "15% fat"![336] It is important to be aware of this tendency because, depending on how a problem is presented to us, we might choose an alternative that is disadvantageous simply because of how it is framed.

Escalation of Commitment

Escalation of commitment occurs when individuals continue on a failing course of action after information reveals this may be a poor path to follow. It is sometimes called *sunk costs fallacy* because the continuation is often based on the idea that one has already invested in this course of action. For example, imagine a person purchases a used car that turns out to need another repair every few weeks. An effective way of dealing with this situation might be to sell the car without incurring further losses, donate the car, or drive it without repairing it until it falls apart. However, many people spend hours of their time and hundreds, even thousands of dollars repairing the car in the hopes that they will justify their initial investment in buying the car.

A classic example of escalation of commitment from the corporate world may be Motorola's Iridium project. In 1980s, the phone coverage around the world was weak—it could take hours of dealing with a chain of telephone operators in several different countries to get a call through from, say, Cleveland to Calcutta. Thus, there was a real need within the business community to improve phone access around the world. Motorola envisioned solving this problem using 66 low- orbiting satellites, enabling users to place a direct call to any location around the world. At the time of idea development, the project was technologically advanced, sophisticated, and made financial sense. Motorola spun off Iridium as a separate company in 1991. It took researchers 15 years to develop the product from idea to market release. However, in the 1990s, the landscape for cell phone technology was dramatically different from the 1980s, and the widespread cell phone coverage around the world eliminated a large base of the projected customer base for Iridium. Had they been paying attention to these developments, the decision makers would probably have abandoned the project at some point in the early 1990s. Instead, they released the Iridium phone to the market in 1998. The phone cost $3,000 and it was literally the size of a brick. Moreover, it was not possible to use the phone in moving cars or inside buildings! Not surprisingly, the launch was a failure and Iridium filed for bankruptcy in 1999.[337] The company was ultimately purchased for $25 million by a group of investors (whereas it cost the company $5 billion to develop its product), scaled down its operations, and modified it for use by the Department of Defense to connect soldiers in remote areas not served by landlines or cell phones.

Why does escalation of commitment occur? There may be many reasons, but two are particularly important. First, decision makers may not want to admit that they were wrong. This may be because of personal pride or being afraid of the consequences of such an admission. Second, decision makers may incorrectly believe that spending more time and energy might somehow help them recover their losses. Effective decision makers avoid escalation of commitment by distinguishing between when persistence may actually pay off versus when

persistence might mean escalation of commitment. To avoid escalation of commitment, you might consider having strict turning back points. For example, you might determine up front that you will not spend more than $500 trying to repair the car and will sell the car when you reach that point. You might also consider assigning separate decision makers for the initial buying and subsequent selling decisions. Periodical evaluations of an initially sound decision to see whether the decision still makes sense is also another way of preventing escalation of commitment. This becomes particularly important in projects such as the Iridium where the initial decision is not immediately implemented but instead needs to go through a lengthy development process. In such cases, it becomes important to assess the soundness of the initial decision periodically in the face of changing market conditions. Finally, creating an organizational climate where individuals do not fear admitting that their initial decision no longer makes economic sense would go a long way in preventing escalation of commitment, as it could lower the regret the decision maker may experience.[338]

Figure 71 Motorola released the Iridium phone to the market in 1998. The phone cost $3,000 and was literally the size of a brick. This phone now resides at the Smithsonian Air and Space Museum in Dulles, Virginia.[339]

So far we have focused on how individuals make decisions and how to avoid decision traps. Next we shift our focus to the group level. There are many similarities and many differences between individual and group decision making. There are many factors that influence group dynamics and also affect the group decision-making process. We will discuss some of them in the next section.

> **KEY TAKEAWAYS**
>
> - Understanding decision-making traps can help you avoid and manage them.
>   - Overconfidence bias can cause you to ignore obvious information.
>   - Hindsight bias can similarly cause a person to incorrectly believe in their ability to predict events.
>   - Anchoring and framing biases show the importance of the way problems or alternatives are presented in influencing one's decision.
> - Escalation of commitment demonstrates how individuals' desire for consistency, or to avoid admitting a mistake, can cause them to continue to invest in a decision that is not prudent.

Decision Making in Groups

LEARNING OBJECTIVES

1. Understand the pros and cons of individual and group decision making.
2. Learn to recognize the signs of groupthink.
3. Recognize different tools and techniques for making better decisions.

When It Comes to Decision Making, Are Two Heads Better Than One?

When it comes to decision making, are two heads better than one? The answer to this question depends on several factors. Group decision making has the advantages of drawing from the experiences and perspectives of a larger number of individuals. Hence, they have the potential to be more creative and lead to a more effective decision. In fact, groups may sometimes achieve results beyond what they could have done as individuals. Groups also make the task more enjoyable for members in question. Finally, when the decision is made by a group rather than a single individual, implementation of the decision will be easier

because group members will be invested in the decision. If the group is diverse, better decisions may be made because different group members may have different ideas based on their background and experiences. Research shows that for top management teams, groups that debate issues and that are diverse make decisions that are more comprehensive and better for the bottom line in terms of profitability and sales.[340]

Despite its popularity within organizations, group decision making suffers from a number of disadvantages. We know that groups rarely outperform their best member[341]. While groups have the potential to arrive at an effective decision, they often suffer from process losses. For example, groups may suffer from coordination problems. Anyone who has worked with a team of individuals on a project can attest to the difficulty of coordinating members' work or even coordinating everyone's presence in a team meeting. Furthermore, groups can suffer from social loafing, or the tendency of some members to put forth less effort while working within a group. Groups may also suffer from group think, the tendency to avoid critical evaluation of ideas the group favors. Finally, group decision making takes a longer time compared with individual decision making, given that all members need to discuss their thoughts regarding different alternatives.

Individual Decision Making		Group Decision Making	
Pros	Cons	Pros	Cons
Typically faster than group decision making	Fewer ideas	Diversity of ideas and can piggyback on others' ideas	Takes longer
Best individual in a group usually outperforms the group	Identifying the best individual can be challenging	Greater commitment to ideas	Group dynamics such as groupthink can occur
Accountability is easier to determine	Possible to put off making decisions if left alone to do it	Interaction can be fun and serves as a team building task	Social loafing-harder to identify responsibility for decisions

Figure 72 Advantages and Disadvantages of Different Levels of Decision Making

Thus, whether an individual or a group decision is preferable will depend on the specifics of the situation. For example, if there is an emergency and a decision needs to be made quickly, individual decision making might be preferred. Individual decision making may also be appropriate if the individual in question has all the information needed to make the decision and if implementation problems are not expected. However, if one person does not have all the information and skills needed to make the decision, if implementing the decision will be difficult without the involvement of those who will be affected by the decision, and if time urgency is more modest, then decision making by a group may be more effective.

Groupthink

Have you ever been in a decision-making group that you felt was heading in the wrong direction, but you didn't speak up and say so? If so, you have already been a victim of groupthink. Groupthink is a group pressure phenomenon that increases the risk of the group making flawed decisions by leading to reduced mental efficiency, reality testing, and moral judgment. Groupthink is characterized by eight symptoms that include:[342]

1. *Illusion of invulnerability* shared by most or all of the group members that

creates excessive optimism and encourages them to take extreme risks.

2. *Collective rationalizations* where members downplay negative information or warnings that might cause them to reconsider their assumptions.

3. *An unquestioned belief in the group's inherent morality* that may incline members to ignore ethical or moral consequences of their actions.

4. *Stereotyped views of out-groups* are seen when groups discount rivals' abilities to make effective responses.

5. *Direct pressure* on any member who expresses strong arguments against any of the group's stereotypes, illusions, or commitments.

6. *Self-censorship* when members of the group minimize their own doubts and counterarguments.

7. *Illusions of unanimity* based on self-censorship and direct pressure on the group; the lack of dissent is viewed as unanimity.

8. *The emergence of self-appointed mindguards* where one or more members protect the group from information that runs counter to the group's assumptions and course of action.

While research on groupthink has not confirmed all of the theory, groups do tend to suffer from symptoms of groupthink when they are large and when the group is cohesive because the members like each other[343]. The assumption is that the more frequently a group displays one or more of the eight symptoms, the worse the quality of their decisions will be. However, if your group is cohesive, it is not necessarily doomed to engage in groupthink.

Recommendations for Avoiding Groupthink:

Groups Should:

- Discuss the symptoms of groupthink and how to avoid them.
- Assign a rotating devil's advocate to every meeting.
- Invite experts or qualified colleagues who are not part of the core decision- making group to attend meetings, and get reactions from outsiders on a regular basis and share these with the group.

Figure 73 Avoiding groupthink can be a matter of life or death. In January 1986, the space shuttle Challenger exploded 73 seconds after liftoff, killing all seven astronauts aboard. The decision to launch Challenger that day, despite problems with mechanical components of the vehicle and unfavorable weather conditions, is cited as an example of groupthink. Source: http://en.wikipedia.org/wiki/Image:Challenger_flight_51-l_crew.jpg

- Encourage a culture of difference where different ideas are valued.
- Debate the ethical implications of the decisions and potential solutions being considered.

Individuals Should:
- Monitor their own behavior for signs of groupthink and modify behavior if needed.
- Check themselves for self-censorship.
- Carefully avoid mindguard behaviors.
- Avoid putting pressure on other group members to conform.
- Remind members of the ground rules for avoiding groupthink if they get off track.

Group Leaders Should:
- Break the group into two subgroups from time to time.

- Have more than one group work on the same problem if time and resources allow it. This makes sense for highly critical decisions.
- Remain impartial and refrain from stating preferences at the outset of decisions.
- Set a tone of encouraging critical evaluations throughout deliberations.
- Create an anonymous feedback channel where all group members can contribute to if desired.

Tools and Techniques for Making Better Decisions

Nominal Group Technique (NGT) was developed to help with group decision making by ensuring that all members participate fully. NGT is not a technique to be used at all meetings routinely. Rather, it is used to structure group meetings when members are grappling with problem solving or idea generation. It follows four steps.[344]

First, each member of the group engages in a period of independently and silently writing down ideas. Second, the group goes in order around the room to gather all the ideas that were generated. This goes on until all the ideas are shared. Third, a discussion takes place around each idea and members ask for and give clarification and make evaluative statements. Finally, individuals vote for their favorite ideas by using either ranking or rating techniques. Following the four-step NGT helps to ensure that all members participate fully and avoids group decision-making problems such as groupthink.

Delphi Technique is unique because it is a group process using written responses to a series of questionnaires instead of physically bringing individuals together to make a decision. The first questionnaire asks individuals to respond to a broad question, such as stating the problem, outlining objectives, or proposing solutions. Each subsequent questionnaire is built from the information gathered in the previous one. The process ends when the group reaches a consensus. Facilitators can decide whether to keep responses anonymous. This process is often used to generate best practices from experts. For example, Purdue University professor

Michael Campion used this process when he was editor of the research journal *Personnel Psychology* and wanted to determine the qualities that distinguished a good research article. Using the Delphi Technique, he was able to gather responses from hundreds of top researchers from around the world without ever having to leave his office and distill them into a checklist of criteria that he could use to evaluate articles submitted to the journal[345].

Majority rule refers to a decision-making rule where each member of the group is given a single vote, and the option that receives the greatest number of votes is selected. This technique has remained popular, perhaps because of its simplicity, speed, ease of use, and representational fairness. Research also supports majority rule as an effective decision-making technique[346]. However, those who did not vote in favor of the decision will be less likely to support it.

Consensus is another decision-making rule that groups may use when the goal is to gain support for an idea or plan of action. While consensus tends to take longer in the first place, it may make sense when support is needed to enact the plan. The process works by discussing the issues, generating a proposal, calling for consensus, and discussing any concerns. If concerns still exist, the proposal is modified to accommodate them. These steps are repeated until consensus is reached. Thus, this decision-making rule is inclusive, participatory, cooperative, and democratic. Research shows that consensus can lead to better accuracy, it helps members feel greater satisfaction with decisions, and to have greater acceptance. However, groups take longer with this approach and groups that cannot reach consensus become frustrated[347].

Group decision support systems (GDSS) are interactive computer-based systems that are able to combine communication and decision technologies to help groups make better decisions. Research shows that a GDSS can actually improve the output of group collaborative work through higher information sharing[348]. Organizations know that having effective knowledge management systems to share information is important, and their spending reflects this reality. According to

a 2002 article, businesses invested $2.7 billion into new systems in 2002 and projections were for this number to double every five years. As the popularity of these systems grows, they risk becoming counterproductive. Humans can only process so many ideas and information at one time. As virtual meetings grow larger, it is reasonable to assume that information overload can occur and good ideas will fall through the cracks, essentially recreating a problem that the GDSS was intended to solve that is to make sure every idea is heard. Another problem is the system possibly becoming too complicated. If the systems evolve to a point of uncomfortable complexity, it has recreated the problem of the bully pulpit and shyness. Those who understand the interface will control the narrative of the discussion, while those who are less savvy will only be along for the ride.[349]

Lastly, many of these programs fail to take into account the factor of human psychology. These systems could make employees more reluctant to share information due to lack of control, lack of immediate feedback, the fear of "flaming" or harsher than normal criticism, and the desire to have original information hence more power[350].

Decision trees are diagrams in which answers to yes or no questions lead decision makers to address additional questions until they reach the end of the tree. Decision trees are helpful in avoiding errors such as framing bias[351]. Decision trees tend to be helpful in guiding the decision maker to a predetermined alternative and ensuring consistency of decision making—that is, every time certain conditions are present, the decision maker will follow one course of action as opposed to others if the decision is made using a decision tree.
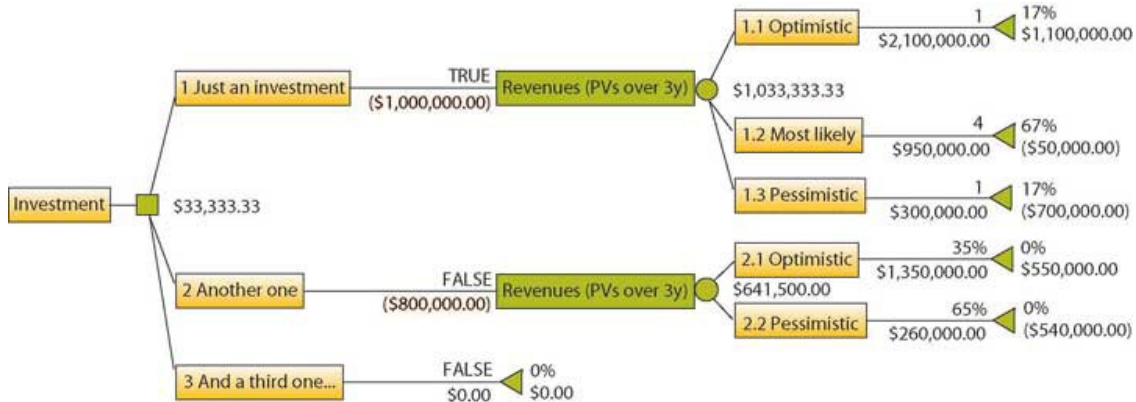
Figure 74 Using decision trees can improve investment decisions by optimizing them for maximum payoff. A decision tree consists of three types of nodes. Decision nodes are commonly represented by squares. Chance nodes are represented by circles. End nodes are represented by triangles.[352]

KEY TAKEAWAYS

- There are trade-offs between making decisions alone and within a group.

- Groups have greater diversity of experiences and ideas than individuals, but they also have potential process losses such as groupthink.

- Groupthink can be avoided by recognizing the eight symptoms discussed.

- Finally, there are a variety of tools and techniques available for helping to make more effective decisions in groups, including the Nominal Group Technique, Delphi Technique, majority rule, consensus, GDSS, and decision trees.

- Understanding the link between managing teams and making decisions is an important aspect of a manager's leading function.

Chapter 10 Review Questions

Multiple Choice:

1. An example of a _____ decision is should we merge with another company.
    a. operational
    b. rational
    c. strategical
    d. tactical

2. Within the rational decision making model, you feel that fuel economy and innovative braking systems are the most important features for a new car; you are practicing ____.
    a. choose the best alternative
    b. establish decision criteria
    c. generate Alternatives
    d. weigh decision criteria

3. The availability of too much information can lead to _____.
    a. analysis paralysis
    b. making creative decisions
    c. making good enough decisions
    d. making intuitive decision

4. _____ bias causes managers to believe incorrectly in their ability to predict events.
    a. anchoring
    b. escalation of commitment
    c. hindsight
    d. overconfidence

Short Answer:

- Describe the five different potential challenges to decision making.

- Describe the four different decision-making models.

Chapter 11 Communication in Organizations

Reading this chapter will help you do the following:

1. Define communication and understand the communication process.

2. Understand and overcome barriers to effective communication.

3. Compare and contrast different types of communication.

4. Compare and contrast different communication channels.

5. Develop your own communication skills.

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 75 The P-O-L-C Framework

Understanding Communication

LEARNING OBJECTIVES

1. Define communication.

2. Understand the communication process.

Communication supports each of a manager's P-O-L-C functions. The ability to effectively communicate is a necessary condition for successfully planning, organizing, leading, and controlling. Communication is vital to organizations—it's how we coordinate actions and achieve goals. It is defined in the *Merriam-Webster's* dictionary as "a process by which information is exchanged between individuals through a common system of symbols, signs, or behavior."[353] We know

that 50%–90% of a manager's time is spent communicating[354], and that communication ability is related to a manager's performance[355]. In most work environments, a miscommunication is an annoyance—it can interrupt workflow by causing delays and interpersonal strife. And in some work arenas, like operating rooms and airplane cockpits, communication can be a matter of life and death.

Figure 76 Success on complicated missions at NASA depends on strong communication. Source: http://en.wikipedia.org/wiki/Image:Orion_briefing_model.jpg

So, just how prevalent is the problem of miscommunication in the workplace? You may be surprised to learn that the relationship between miscommunication and negative outcomes is strong. A recent NASA study suggests that deficient interpersonal communication was a causal factor in approximately 70%–80% of aviation accidents over a 20-year period[356]. Poor communication can also lead to lawsuits. For example, you might think that malpractice suits are filed against doctors based on the outcome of their treatments alone. But a 1997 study of malpractice suits found that a primary influence on whether a doctor is sued is that doctor's communication style. While the combination of a bad outcome and patient unhappiness can quickly lead to litigation, a warm, personal communication style leads to greater patient satisfaction. And satisfied patients are less likely to sue.[357]

For leaders and organizations, poor communication costs money and wastes time. One study found that 14% of each workweek is wasted on poor communication[358]. In contrast, effective communication is an asset for organizations and individuals alike. Effective communication skills, for example, are an asset for job seekers. A recent study of recruiters at 85 business schools ranked communication and

interpersonal skills as the highest skills they were looking for, with 89% of the recruiters saying they were important[359]. Good communication can also help a company retain its star employees. Surveys find that when employees think their organizations do a good job of keeping them informed about matters that affect them and they have ready access to the information they need to do their jobs, they are more satisfied with their employers.[360]

So, can good communication increase a company's market value? The answer seems to be yes. "When you foster ongoing communications internally, you will have more satisfied employees who will be better equipped to effectively communicate with your customers," says Susan Meisinger, President/CEO of the Society for Human Resource Management, citing research findings that for organizations that are able to improve their communication integrity, their market value increases by as much as 7.1%[361]. We will explore the definition and benefits of effective communication in our next section.

The Communication Process

Communication fulfills three main functions within an organization: (1) transmitting information, (2) coordinating effort, and (3) sharing emotions and feelings. All these functions are vital to a successful organization. Transmitting information is vital to an organization's ability to function. Coordinating effort within the organization helps people work toward the same goals. Sharing emotions and feelings bonds teams and unites people in times of celebration and crisis. Effective communication helps people grasp issues, build rapport with coworkers, and achieve consensus. So, how can we communicate effectively? The first step is to understand the communication process.

Figure 77 Lee Iacocca, past president and CEO of Chrysler until his retirement in 1992, said, "You can have brilliant ideas, but if you can't get them across, your ideas won't get you anywhere." Source: http://en.wikipedia.org/wiki/Lee_Iacocca

We all exchange information with others countless times a day, by phone, e-mail, printed word, and of course, in person. Let's take a moment to see how a typical communication works using the Process Model of Communication as a guide.
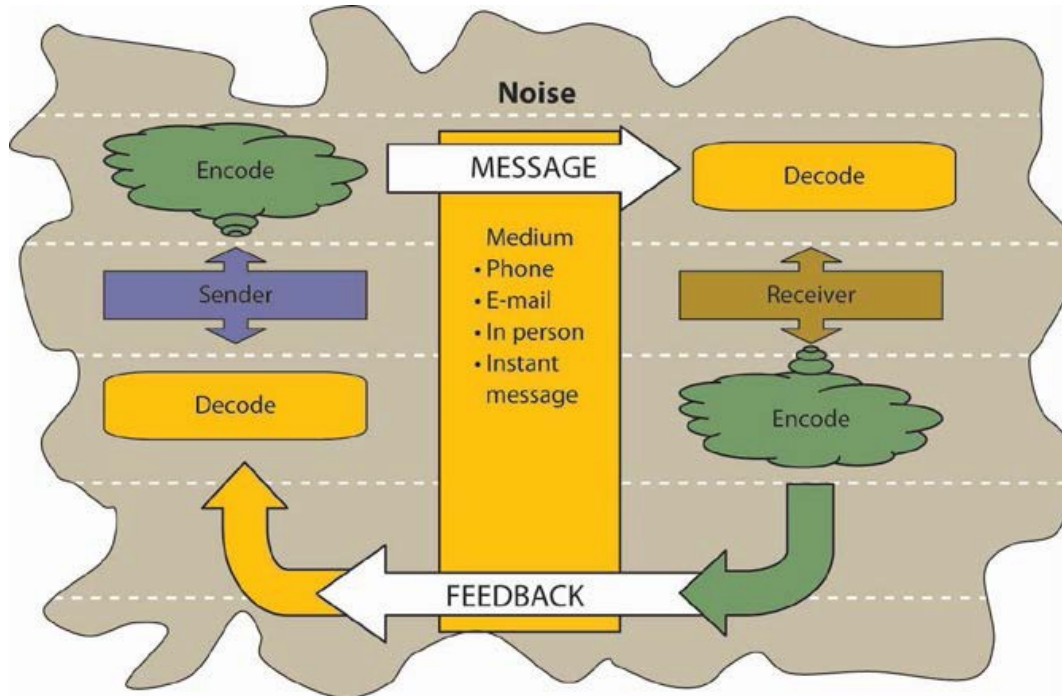

Figure 78 The Process Model of Communication

A **Sender**, such as a boss, coworker, or customer, originates the Message with a thought. For example, the boss's thought could be: *"Get more printer toner cartridges!"*

The Sender encodes the Message, translating the idea into words.

The boss may communicate this thought by saying, *"Hey you guys, we need to order more printer toner cartridges."*

The medium of this encoded Message may be spoken words, written words, or signs.

The receiver is the person who receives the Message.

The Receiver decodes the Message by assigning meaning to the words.

In this example, our Receiver, Bill, has a to-do list a mile long. *"The boss must know how much work I already have."* the Receiver thinks. Bill's mind translates his boss's Message as, *"Could you order some printer toner cartridges, in addition to everything else I asked you to do this week…if you can find the time?"*

The meaning that the Receiver assigns may not be the meaning that the Sender intended because of such factors as noise. Noise is anything that interferes with or distorts the Message being transformed. Noise can be external in the environment (such as distractions) or it can be within the Receiver. For example, the Receiver may be highly nervous and unable to pay attention to the Message. Noise can even occur within the Sender: the Sender may be unwilling to take the time to convey an accurate Message or the words she chooses can be ambiguous and prone to misinterpretation.

Picture the next scene. The place: a staff meeting. The time: a few days later. The boss believes her Message has been received.

"Are the printer toner cartridges here yet?" she asks.

"You never said it was a rush job!" the Receiver protests.

"But!"

"But!"

Miscommunications like these happen in the workplace every day. We've seen that miscommunication does occur in the workplace. But how does a miscommunication happen? It helps to think of the communication process. The series of arrows pointing the way from the Sender to the Receiver and back again can, and often do, fall short of their target.

Communication Barriers

LEARNING OBJECTIVES

1. Understand different ways that the communication process can be sidetracked.

2. Understand the problem of poor listening and how to promote active listening.

Barriers to Effective Communication

Communicating can be more of a challenge than you think, when you realize the many things that can stand in the way of effective communication. These include filtering, selective perception, information overload, emotional disconnects, lack of source familiarity or credibility, workplace gossip, semantics, gender differences, differences in meaning between Sender and Receiver, and biased language. Let's examine each of these barriers.

Filtering

Filtering is the distortion or withholding of information to manage a person's reactions. Some examples of filtering include a manager who keeps her division's poor sales figures from her boss, the vice president, fearing that the bad news will make him angry. The old saying, "Don't shoot the messenger!" illustrates the tendency of Receivers (in this case, the vice president) to vent their negative response to unwanted Messages on the Sender. A gatekeeper (the vice president's assistant, perhaps) who doesn't pass along a complete Message is also filtering.

The vice president may delete the e-mail announcing the quarter's sales figures before reading it, blocking the Message before it arrives.

As you can see, filtering prevents members of an organization from getting a complete picture of the way things are. To maximize your chances of sending and receiving effective communications, it's helpful to deliver a Message in multiple ways and to seek information from multiple sources. In this way, the effect of any one person's filtering the Message will be diminished.

Since people tend to filter bad news more during upward communication, it is also helpful to remember that those below you in an organization may be wary of sharing bad news. One way to defuse the tendency to filter is to reward employees who clearly convey information upward, regardless of whether the news is good and bad.

Here are some of the criteria that individuals may use when deciding whether to filter a Message or pass it on:

- Past experience: Was the Sender rewarded for passing along news of this kind in the past, or was she criticized?
- Knowledge, perception of the speaker: Has the Receiver's direct superior made it clear that "no news is good news?"
- Emotional state, involvement with the topic, level of attention: Does the Sender's fear of failure or criticism prevent him from conveying the Message? Is the topic within his realm of expertise, increasing his confidence in his ability to decode it, or is he out of his comfort zone when it comes to evaluating the Message's significance? Are personal concerns impacting his ability to judge the Message's value?

Once again, filtering can lead to miscommunications in business. Each listener translates the Message into his or her own words, creating his or her own version of what was said.[362]

Selective Perception

Selective perception refers to filtering what we see and hear to suit our own needs. This process is often unconscious. Small things can command our attention when we're visiting a new place—a new city or a new company. Over time, however, we begin to make assumptions about the way things are on the basis of our past experience. Often, much of this process is unconscious. "We simply are bombarded with too much stimuli every day to pay equal attention to everything so we pick and choose according to our own needs."[363] Selective perception is a time-saver, a necessary tool in a complex culture. But it can also lead to mistakes.

Think back to the earlier example conversation between Bill, who was asked to order more toner cartridges, and his boss. Since Bill found his boss's to-do list to be unreasonably demanding, he assumed the request could wait. (How else could he do everything else on the list?) The boss, assuming that Bill had heard the urgency in her request, assumed that Bill would place the order before returning to the other tasks on her list. Both members of this organization were using selective perception to evaluate the communication. Bill's perception was that the task of ordering could wait. The boss's perception was that her time frame was clear, though unstated. When two selective perceptions collide, a misunderstanding occurs.

Information Overload

Information overload can be defined as "occurring when the information processing demands on an individual's time to perform interactions and internal calculations exceed the supply or capacity of time available for such processing."[364] Messages reach us in countless ways every day. Some are societal— advertisements that we may hear or see in the course of our day. Others are professional—e-mails, and memos, voice mails, and conversations from our colleagues. Others are personal—messages and conversations from our loved ones and friends.

Add these together and it's easy to see how we may be receiving more information than we can take in. This state of imbalance is known as information overload.

Experts note that information overload is "A symptom of the high-tech age, which is too much information for one human being to absorb in an expanding world of people and technology. It comes from all sources including TV, newspapers, and magazines as well as wanted and unwanted regular mail, e-mail and faxes. It has been exacerbated enormously because of the formidable number of results obtained from Web search engines."[365] Other research shows that working in such fragmented fashion has a significant negative effect on efficiency, creativity, and mental acuity[366].

Going back to our example of Bill. Let's say he's in his cubicle on the phone with a supplier. While he's talking, he hears the chime of e-mail alerting him to an important message from his boss. He's scanning through it quickly, while still on the phone, when a coworker pokes his head around the cubicle corner to remind Bill that he's late for a staff meeting. The supplier on the other end of the phone line has just given Bill a choice among the products and delivery dates he requested. Bill realizes he missed hearing the first two options, but he doesn't have time to ask the supplier to repeat them all or to try reconnecting to place the order at a later time. He chooses the third option—at least he heard that one, he reasons, and it seemed fair. How good was Bill's decision amid all the information he was processing at the same time?

Emotional disconnects

Emotional disconnects happen when the Sender or the Receiver is upset, whether about the subject at hand or about some unrelated incident that may have happened earlier. An effective communication requires a Sender and a Receiver who are open to speaking and listening to one another, despite possible differences in opinion or personality. One or both parties may have to put their emotions aside to achieve the goal of communicating clearly. A Receiver who is emotionally upset tends to ignore or distort what the Sender is saying. A Sender who is emotionally upset may be unable to present ideas or feelings effectively.

Lack of Source Credibility

Lack of source familiarity or credibility can derail communications, especially when humor is involved. Have you ever told a joke that fell flat? You and the Receiver lacked the common context that could have made it funny. (Or yes, it could have just been a lousy joke.) Sarcasm and irony are subtle, and potentially hurtful, commodities in business. It's best to keep these types of communications out of the workplace as their benefits are limited, and their potential dangers are great. Lack of familiarity with the Sender can lead to misinterpreting humor, especially in less-rich information channels like e-mail. For example, an e-mail from Jill that ends with, "Men, like hens, should boil in vats of oil," could be interpreted as anti-male if the Receiver didn't know that Jill has a penchant for rhyme and likes to entertain coworkers by making up amusing sayings.

Similarly, if the Sender lacks credibility or is untrustworthy, the Message will not get through. Receivers may be suspicious of the Sender's motivations ("Why am I being told this?"). Likewise, if the Sender has communicated erroneous information in the past, or has created false emergencies, his current Message may be filtered.

Workplace gossip, also known as the grapevine, is a lifeline for many employees seeking information about their company.[367] Researchers agree that the grapevine is an inevitable part of organizational life. Research finds that 70% of all organizational communication occurs at the grapevine level[368]. Employees trust their peers as a source of Messages, but the grapevine's informal structure can be a barrier to effective communication from the managerial point of view. Its grassroots structure gives it greater credibility in the minds of employees than information delivered through official channels, even when that information is false.

Some downsides of the office grapevine are that gossip offers politically minded insiders a powerful tool for disseminating communication (and self-promoting miscommunications) within an organization. In addition, the grapevine lacks a specific Sender, which can create a sense of distrust among employees—who is at the root of the gossip network? When the news is volatile, suspicions may arise as to the person or persons behind the Message. Managers who understand the

grapevine's power can use it to send and receive Messages of their own. They also decrease the grapevine's power by sending official Messages quickly and accurately, should big news arise.

Semantics

Semantics is the study of meaning in communication. Words can mean different things to different people, or they might not mean anything to another person. For example, companies often have their own acronyms and buzzwords (called business jargon) that are clear to them but impenetrable to outsiders. For example, at IBM, GBS is focusing on BPTS, using expertise acquired from the PwC purchase (which had to be sold to avoid conflicts of interest in light of SOX) to fend other BPO providers and inroads by the Bangalore tiger. Does this make sense to you? If not, here's the translation: IBM's Global Business Services (GBS) division is focusing on offering companies Business Process Transformation Services (BPTS), using the expertise it acquired from purchasing the management consulting and technology services arm of PricewaterhouseCoopers (PwC), which had to sell the division because of the Sarbanes-Oxley Act (SOX, enacted in response to the major accounting scandals like the Enron). The added management expertise puts it above business process outsourcing (BPO) vendors who focus more on automating processes rather than transforming and improving them. Chief among these BPO competitors is Wipro, often called the "Bangalore tiger" because of its geographic origin and aggressive growth.

Given the amount of Messages we send and receive every day, it makes sense that humans try to find shortcuts—a way to communicate things in code. In business, this code is known as jargon. Jargon is the language of specialized terms used by a group or profession. It is common shorthand among experts and if used sensibly can be a quick and efficient way of communicating. Most jargon consists of unfamiliar terms, abstract words, nonexistent words, acronyms, and abbreviations, with an occasional euphemism thrown in for good measure. Every profession, trade, and organization has its own specialized terms[369]. At first glance, jargon seems like a good thing—a quicker way to send an effective

communication, the way text message abbreviations can send common messages in a shorter, yet understandable way. But that's not always how things happen. Jargon can be an obstacle to effective communication, causing listeners to tune out or fostering ill-feeling between partners in a conversation. When jargon rules the day, the Message can get obscured.

A key question to ask before using jargon is, "Who is the Receiver of my Message?" If you are a specialist speaking to another specialist in your area, jargon may be the best way to send a message while forging a professional bond—similar to the way best friends can communicate in code. For example, an information technology (IT) systems analyst communicating with another IT employee may use jargon as a way of sharing information in a way that reinforces the pair's shared knowledge. But that same conversation should be held in Standard English, free of jargon, when communicating with staff members outside the IT group.

Online Follow-Up

Here is a Web site of 80 buzz words in business:

- http://www.amanet.org/movingahead/editorial2002_2003/nov03_80buzzword s.htm

and a discussion of why slang is a problem:

- http://sbinfocanada.about.com/od/speakforsuccesscourse/a/speechlesson5.htm

Gender Differences

Gender differences in communication have been documented by a number of experts, including linguistics professor Deborah Tannen in her best-selling book *You Just Don't Understand: Women and Men in Conversation*[370]. Men and women work together every day. But their different styles of communication can sometimes work against them. Generally speaking, women like to ask questions

before starting a project, while men tend to "jump right in." A male manager who's unaware of how many women communicate their readiness to work may misperceive a ready employee as not ready. Another difference that has been noticed is that men often speak in sports metaphors, while many women use their home as a starting place for analogies. Women who believe men are "only talking about the game" may be missing out on a chance to participate in a division's strategy and opportunities for teamwork and "rallying the troops" for success[371]. "It is important to promote the best possible communication between men and women in the workplace," notes gender policy adviser Dee Norton, who provided the above example. "As we move between the male and female cultures, we sometimes have to change how we behave (speak the language of the other gender) to gain the best results from the situation. Clearly, successful organizations of the future are going to have leaders and team members who understand, respect and apply the rules of gender culture appropriately."[372]

Being aware of these gender differences can be the first step in learning to work with them, as opposed to around them. For example, keep in mind that men tend to focus more on competition, data, and orders in their communications, while women tend to focus more on cooperation, intuition, and requests. Both styles can be effective in the right situations, but understanding the differences is a first step in avoiding misunderstandings based on them.

Differences in meaning often exist between the Sender and Receiver. *"Mean what you say, and say what you mean.*" It's an easy thing to say. But in business, what do those words mean? Different words mean different things to different people. Age, education, and cultural background are all factors that influence how a person interprets words. The less we consider our audience, the greater our chances of miscommunication will be. When communication occurs in the cross-cultural context, extra caution is needed given that different words will be interpreted differently across cultures and different cultures have different norms regarding nonverbal communication. Eliminating jargon is one way of ensuring that our words will convey real-world concepts to others. Speaking to our audience, as

opposed to about ourselves, is another. Nonverbal Messages can also have different meanings.[373]

Figure 79	1. *"V" for victory.* Use this gesture with caution! While in North America it signs victory or peace, in England and Australia it means something closer to "take this!"
Figure 80	2. *The "OK" gesture.* While in North America it means things are going well, in France it means a person is thought to be worthless, in Japan it refers to money, and in Brazil, Russia, and Germany it means something really not appropriate for the workplace.
Figure 81	3. The *"thumbs up"* means one in Germany, five in Japan, but a good job in North America. This can lead to confusion.

Figure 82	4. *"Hook 'em horns."* This University of Texas rallying call looks like the horns of a bull. However, in Italy it means you are being tricked, while in Brazil and Venezuela it means you are warding off evil.
Figure 83	5. *Waving your hand.* In much of Europe waving your hand indicates a disagreement. However, in North America it is routinely used as a way to signal greetings or to get someone's attention.

Table 8 Gestures Around the Globe

Managers who speak about "long-term goals and profits" to a staff that has received scant raises may find their core Message ("You're doing a great job—and that benefits the folks in charge!") has infuriated the group they hoped to inspire. Instead, managers who recognize the "contributions" of their staff and confirm that this work is contributing to company goals in ways "that will benefit the source of our success—our employees as well as executives," will find their core Message ("You're doing a great job—we really value your work") is received as opposed to being misinterpreted.

Biased language can offend or stereotype others on the basis of their personal or group affiliation. The figure below provides a list of words that have the potential to be offensive in the left-hand column. The right-hand column provides more neutral words that you can use instead.[374]

Avoid	Consider Using
black attorney	attorney
businessman	business person
chairman	chair or chairperson
cleaning lady	cleaner or maintenance worker
male nurse	nurse
manpower	staff or personnel
secretary	assistant or associate

Figure 84 Avoiding Biased Language

Effective communication is clear, factual, and goal-oriented. It is also respectful. Referring to a person by one adjective (a *brain*, a *diabetic*, an *invalid*) reduces that person to that one characteristic. Language that belittles or stereotypes a person poisons the communication process. Language that insults an individual or group based on age, ethnicity, sexual preference, or political beliefs violates public and private standards of decency, ranging from civil rights to corporate regulations.

The effort to create a neutral set of terms to refer to heritage and preferences has resulted in a debate over the nature of "political correctness." Proponents of political correctness see it as a way to defuse the volatile nature of words that stereotyped groups and individuals in the past. Critics of political correctness see its vocabulary as stilted and needlessly cautious.

Many companies offer new employees written guides on standards of speech and conduct. These guides, augmented by common sense and courtesy, are solid starting points for effective, respectful workplace communication. Tips for appropriate workplace speech include but are not limited to:

- Alternating the use of "he" and "she" when referring to people in general.
- Relying on human resources–generated guidelines.

- Remembering that terms that feel respectful or comfortable to us may not be comfortable or respectful to others.

Poor Listening and Active Listening

Former Chrysler CEO Lee Iacocca lamented, "I only wish I could find an institute that teaches people how to listen. After all, a good manager needs to listen at least as much as he needs to talk."[375] Research shows that listening skills are related to promotions[376]. A Sender may strive to deliver a Message clearly. But the Receiver's ability to listen effectively is equally vital to effective communication. The average worker spends 55% of her workdays listening. Managers listen up to 70% each day. But listening doesn't lead to understanding in every case. Listening takes practice, skill, and concentration.

According to University of San Diego professor Phillip Hunsaker, "The consequences of poor listening are lower employee productivity, missed sales, unhappy customers, and billions of dollars of increased cost and lost profits. Poor listening is a factor in low employee morale and increased turnover because employees do not feel their managers listen to their needs, suggestions, or complaints.[377]" Clearly, if you hope to have a successful career in management, it behooves you to learn to be a good listener.

Alan Gulick, a Starbucks spokesperson, puts better listening to work in pursuit of better profits. If every Starbucks employee misheard one $10 order each day, he calculates, their errors would cost the company a billion dollars annually. To teach its employees to listen, Starbucks created a code that helps employees taking orders hear the size, flavor, and use of milk or decaf coffee. The person making the drink echoes the order aloud.

How can you improve your listening skills? The Roman philosopher Cicero said, "Silence is one of the great arts of conversation." How often have we been in conversation with someone else where we are not really listening but itching to convey our portion? This behavior is known as "rehearsing." It suggests the

Receiver has no intention of considering the Sender's Message and intends to respond to an earlier point instead. Clearly, rehearsing is an impediment to the communication process. Effective communication relies on another kind of listening: active listening.

Active listening can be defined as giving full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times[378]. Active listening creates a real-time relationship between the Sender and the Receiver by acknowledging the content and receipt of a Message. As we've seen in the Starbucks example, repeating and confirming a Message's content offers a way to confirm that the correct content is flowing between colleagues. The process creates a bond between coworkers while increasing the flow and accuracy of messaging. Carl Rogers, founder of the "person-centered" approach to psychology, formulated five rules for active listening:

1. Listen for message content
2. Listen for feelings
3. Respond to feelings
4. Note all cues
5. Paraphrase and restate

The good news is that listening is a skill that can be learned.[379] The first step is to decide that we want to listen. Casting aside distractions, such as by reducing background or internal noise, is critical. The Receiver takes in the Sender's Message silently, without speaking. Second, throughout the conversation, show the speaker that you're listening. You can do this nonverbally by nodding your head and keeping your attention focused on the speaker. You can also do it verbally, by saying things like, "Yes," "That's interesting," or other such verbal cues. As you're listening, pay attention to the Sender's body language for additional cues about how they're feeling. Interestingly, silence plays a major role in active listening. During active listening, we are trying to understand what has

been said, and in silence, we can consider the implications. We can't consider information and reply to it at the same time. That's where the power of silence comes into play. Finally, if anything is not clear to you, ask questions. Confirm that you've heard the message accurately, by repeating back a crucial piece like, "Great, I'll see you at 2 p.m. in my office." At the end of the conversation, a "thank you" from both parties is an optional but highly effective way of acknowledging each other's teamwork. In summary, active listening creates a more dynamic relationship between a Receiver and a Sender. It strengthens personal investment in the information being shared. It also forges healthy working relationships among colleagues by making Speakers and Listeners equally valued members of the communication process.

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KEY TAKEAWAYS

- Many barriers to effective communication exist. Examples include filtering, selective perception, information overload, emotional disconnects, lack of source familiarity or credibility, workplace gossip, semantics, gender differences, differences in meaning between Sender and Receiver, and biased language.

- The Receiver can enhance the probability of effective communication by engaging in active listening, which involves (1) giving one's full attention to the Sender and (2) checking for understanding by repeating the essence of the Message back to the Sender.

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Different Types of Communication

LEARNING OBJECTIVES

1. Understand the features and advantages of verbal communication.
2. Understand the features and advantages of written communication.
3. Understand the features of nonverbal communication and how it interacts with verbal and written communications.

Communication can be categorized into three basic types: (1) verbal communication, in which you listen to a person to understand their meaning; (2) written communication, in which you read their meaning; and (3) nonverbal communication, in which you observe a person and infer meaning. Each has its own advantages, disadvantages, and even pitfalls.

Verbal Communication

Verbal communications in business take place over the phone or in person. The medium of the Message is *oral*. Let's return to our printer cartridge example. This time, the Message is being conveyed from the Sender (the Manager) to the Receiver (an employee named Bill) by telephone. We've already seen how the Manager's request to Bill ("We need to buy more printer toner cartridges") can go awry. Now let's look at how the same Message can travel successfully from Sender to Receiver.

Manager (speaking on the phone): "Good morning, Bill!"

(By using the employee's name, the manager is establishing a clear, personal link to the Receiver.)

Manager: "Your division's numbers are looking great."

(The Manager's recognition of Bill's role in a winning team further personalizes and emotionalizes the conversation.)

Manager: "Our next step is to order more printer toner cartridges. Could you place an order for 1,000 printer toner cartridges with Jones Computer Supplies? Our budget for this purchase is $30,000, and the cartridges need to be here by Wednesday afternoon."

(The Manager breaks down the task into several steps. Each step consists of a specific task, time frame, quantity, or goal.)

Bill: "Sure thing! I'll call Jones Computer Supplies and order 1,000 more printer

toner cartridges, not exceeding a total of $30,000, to be here by Wednesday afternoon."

(Bill, who is good at active listening, repeats what he has heard. This is the Feedback portion of the communication, and verbal communication has the advantage of offering opportunities for immediate feedback. Feedback helps Bill to recognize any confusion he may have had hearing the manager's Message. Feedback also helps the manager to tell whether she has communicated the Message correctly.)

Storytelling

Storytelling has been shown to be an effective form of verbal communication; it serves an important organizational function by helping to construct common meanings for individuals within the organization. Stories can help clarify key values and help demonstrate how things are done within an organization, and story frequency, strength, and tone are related to higher organizational commitment[380]. The quality of the stories entrepreneurs tell is related to their ability to secure capital for their firms[381]. Stories can serve to reinforce and perpetuate an organization's culture, part of the organizing P-O-L-C function.

Crucial Conversations

While the process may be the same, high-stakes communications require more planning, reflection, and skill than normal day-to-day interactions at work. Examples of high-stakes communication events include asking for a raise or presenting a business plan to a venture capitalist. In addition to these events, there are also many times in our professional lives when we have crucial conversations— discussions where not only the stakes are high but also where opinions vary and emotions run strong[382]. One of the most consistent recommendations from communications experts is to work toward using "and" instead of "but" as you communicate under these circumstances. In addition, be aware of your communication style and practice flexibility; it is under stressful situations that communication styles can become the most rigid.

Written Communication

In contrast to verbal communications, written business communications are *printed messages*. Examples of written communications include memos, proposals, e-mails, letters, training manuals, and operating policies. They may be printed on paper, handwritten, or appear on the screen. Normally, a verbal communication takes place in real time. Written communication, by contrast, can be constructed over a longer period of time. Written communication is often asynchronous (occurring at different times). That is, the Sender can write a Message that the Receiver can read at any time, unlike a conversation that is carried on in real time. A written communication can also be read by many people (such as all employees in a department or all customers). It's a "one-to- many" communication, as opposed to a one-to-one verbal conversation. There are exceptions, of course: a voicemail is an oral Message that is asynchronous. Conference calls and speeches are oral one-to-many communications, and e- mails may have only one recipient or many.

Figure 85 Communication mediums have come a long way since Alexander Graham Bell's original telephone. Source: http://en.wikipedia.org/wiki/image:cnam-img_0564.jpg

Most jobs involve some degree of writing. According to the National Commission on Writing, 67% of salaried employees in large American companies and professional state employees have some writing responsibility. Half of responding companies reported that they take writing into consideration when hiring professional employees, and 91% always take writing into account when hiring (for any position, not just professional-level ones).[383]

Luckily, it is possible to learn to write clearly. Here are some tips on writing well.

Thomas Jefferson summed up the rules of writing well with this idea "Don't use two words when one will do." One of the oldest myths in business is that writing more will make us sound more important; in fact, the opposite is true. Leaders who can communicate simply and clearly project a stronger image than those who write a lot but say nothing.

Nonverbal Communication

What you say is a vital part of any communication. But what you *don't say* can be even more important. Research also shows that 55% of in-person communication comes from nonverbal cues like facial expressions, body stance, and tone of voice. According to one study, only 7% of a Receiver's comprehension of a Message is based on the Sender's actual words; 38% is based on paralanguage (the tone, pace, and volume of speech), and 55% is based on *nonverbal cues* (body language)[384].

Research shows that nonverbal cues can also affect whether you get a job offer. Judges examining videotapes of actual applicants were able to assess the social skills of job candidates with the sound turned off. They watched the rate of gesturing, time spent talking, and formality of dress to determine which candidates would be the most successful socially on the job[385]. For this reason, it is important to consider how we appear in business as well as what we say. The muscles of our faces convey our emotions. We can send a silent message without saying a word. A change in facial expression can change our emotional state. Before an interview, for example, if we focus on feeling confident, our face will convey that confidence to an interviewer. Adopting a smile (even if we're feeling stressed) can reduce the body's stress levels.

To be effective communicators, we need to align our body language, appearance, and tone with the words we're trying to convey. Research shows that when individuals are lying, they are more likely to blink more frequently, shift their weight, and shrug. [386]

Listen Up and Learn More!

To learn more about facial language from facial recognition expert Patrician McCarthy as she speaks with Senior Editor Suzanne Woolley at Business Week, view the online interview at:

http://feedroom.businessweek.com/index.jsp?fr_chl=1e2ee1e43e4a5402a862f79a7941fa625f5b0744

Another element of nonverbal communication is tone. A different tone can change the perceived meaning of a message. Table 2 "Don't Use That Tone with Me!" demonstrates how clearly this can be true, whether in verbal or written communication. If we simply read these words without the added emphasis, we would be left to wonder, but the emphasis shows us how the tone conveys a great deal of information. Now you can see how changing one's tone of voice or writing can incite or defuse a misunderstanding.

Table 9 Don't Use That Tone with Me! [387]

Placement of the emphasis	What it means
I did not tell John you were late.	Someone else told John you were late.
I did **not** tell John you were late.	This did not happen.
I did not **tell** John you were late.	I may have implied it.
I did not tell **John** you were late.	But maybe I told Sharon and José.
I did not tell John **you** were late.	I was talking about someone else.
I did not tell John you **were** late.	I told him you still are late.
I did not tell John you were **late**.	I told him you were attending another meeting.

For an example of the importance of nonverbal communication, imagine that you're a customer interested in opening a new bank account. At one bank, the bank officer is dressed neatly. She looks you in the eye when she speaks. Her tone

is friendly. Her words are easy to understand, yet she sounds professional. "Thank you for considering Bank of the East Coast. We appreciate this opportunity and would love to explore ways that we can work together to help your business grow," she says with a friendly smile.

At the second bank, the bank officer's tie is stained. He looks over your head and down at his desk as he speaks. He shifts in his seat and fidgets with his hands. His words say, "Thank you for considering Bank of the West Coast. We appreciate this opportunity and would love to explore ways that we can work together to help your business grow," but he mumbles, and his voice conveys no enthusiasm or warmth. Which bank would you choose?

The speaker's body language must match his or her words. If a Sender's words and body language don't match—if a Sender smiles while telling a sad tale, for example—the mismatch between verbal and nonverbal cues can cause a Receiver to actively dislike the Sender.

Here are a few examples of nonverbal cues that can support or detract from a Sender's Message.

Body Language

A simple rule is that simplicity, directness, and warmth convey sincerity. And sincerity is key to effective communication. A firm handshake, given with a warm, dry hand, is a great way to establish trust. A weak, clammy handshake conveys a lack of trustworthiness. Gnawing one's lip conveys uncertainty. A direct smile conveys confidence.

Eye Contact

In business, the style and duration of eye contact considered appropriate vary greatly across cultures. In the United States, looking someone in the eye (for about a second) is considered a sign of trustworthiness.

Facial Expressions

The human face can produce thousands of different expressions. These

expressions have been decoded by experts as corresponding to hundreds of different emotional states[388]. Our faces convey basic information to the outside world. Happiness is associated with an upturned mouth and slightly closed eyes; fear with an open mouth and wide-eyed stare. Flitting ("shifty") eyes and pursed lips convey a lack of trustworthiness. The effect of facial expressions in conversation is instantaneous. Our brains may register them as "a feeling" about someone's character.

Posture

The position of our body relative to a chair or another person is another powerful silent messenger that conveys interest, aloofness, professionalism—or lack thereof. Head up, back straight (but not rigid) implies an upright character. In interview situations, experts advise mirroring an interviewer's tendency to lean in and settle back in her seat. The subtle repetition of the other person's posture conveys that we are listening and responding.

Touch

The meaning of a simple touch differs between individuals, genders, and cultures. In Mexico, when doing business, men may find themselves being grasped on the arm by another man. To pull away is seen as rude. In Indonesia, to touch anyone on the head or touch anything with one's foot is considered highly offensive. In the Far East, according to business etiquette writer Nazir Daud, "it is considered impolite for a woman to shake a man's hand."[389] Americans, as we have noted, place great value in a firm handshake. But handshaking as a competitive sport ("the bone-crusher") can come off as needlessly aggressive, at home and abroad.

Space

Anthropologist Edward T. Hall coined the term *proxemics* to denote the different kinds of distance that occur between people. These distances vary between cultures. The figure below outlines the basic proxemics of everyday life and their meaning.
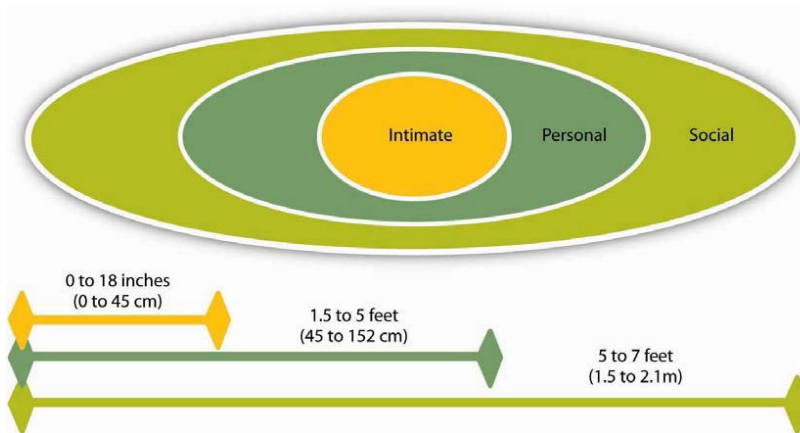
Figure 86 Interpersonal Distances

Standing too far away from a colleague (such as a public speaking distance of more than seven feet) or too close to a colleague (intimate distance for embracing) can thwart an effective verbal communication in business.[390]

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KEY TAKEAWAYS

- Types of communication include verbal, written, and nonverbal.

- Verbal communications have the advantage of immediate feedback, are best for conveying emotions, and can involve storytelling and crucial conversations.

- Written communications have the advantage of asynchronicity, of reaching many readers, and are best for conveying information.

- Both verbal and written communications convey nonverbal messages through tone; verbal communications are also colored by body language, eye contact, facial expression, posture, touch, and space.

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Communication Channels

LEARNING OBJECTIVES

1. Understand how communication channels affect communication.
2. Recognize different communication directions within organizations.

The channel, or medium, used to communicate a message affects how accurately the message will be received. Verbal, written, and nonverbal communications have different strengths and weaknesses. In business, the decision to communicate

verbally or in written form can be a powerful one. In addition, a smart manager is aware of the nonverbal messages conveyed by either type of communication—as noted earlier, only 7% of verbal communication comes from the words themselves.

Information Richness

Channels vary in their *information richness*. Information-rich channels convey more nonverbal information. As you may be able to guess from our earlier discussion of verbal and written communications, verbal communications are richer than written ones. Research shows that effective managers tend to use more information-rich communication channels than less effective managers.[391] The figure below illustrates the information richness of different information channels.

Information Channel	Information Richness
Face-to-face conversation	High
Videoconferencing	High
Telephone conversation	High
E-mails	Medium
Handheld devices	Medium
Blogs	Medium
Written letters and memos	Medium
Formal written documents	Low
Spreadsheets	Low

Figure 87 Information Richness[392]

Like face-to-face and telephone conversation, videoconferencing has high information richness because Receivers and Senders can see or hear beyond just the words—they can see the Sender's body language or hear the tone of their voice. Handheld devices, blogs, and written letters and memos offer medium-rich channels because they convey words and pictures/photos. Formal written

documents, such as legal documents, and spreadsheets, such as the division's budget, convey the least richness because the format is often rigid and standardized. As a result, nuance is lost.

In business, the decision to communicate verbally or in written form can be powerful. In addition, a smart manager is aware of the nonverbal messages conveyed by either type of communication—as noted earlier, only 7% of a verbal communication comes from the words themselves.

When determining whether to communicate verbally or in writing, ask yourself: *Do I want to convey facts or feelings*? Verbal communications are a better way to convey feelings. Written communications do a better job of conveying facts.

Picture a manager making a speech to a team of 20 employees. The manager is speaking at a normal pace. The employees appear interested. But how much information is being transmitted? Not as much as the speaker believes! Humans listen much faster than they speak. The average public speaker communicates at a speed of about 125 words a minute. And that pace sounds fine to the audience. (In fact, anything faster than that probably would sound weird. To put that figure in perspective, someone having an excited conversation speaks at about 150 words a minute.) On the basis of these numbers, we could assume that the employees have more than enough time to take in each word the manager delivers. And that's the problem. The average person in the audience can hear 400–500 words a minute[393]. The audience has *more than enough time* to hear. As a result, they will each be processing many thoughts of their own, on totally different subjects, while the manager is speaking. As this example demonstrates, oral communication is an inherently flawed medium for conveying specific facts. Listeners' minds wander! It's nothing personal—in fact, it's totally physical. In business, once we understand this fact, we can make more intelligent communication choices based on the kind of information we want to convey.

The key to effective communication is to match the communication channel with

the goal of the communication[394]. For example, written media may be a better choice when the Sender wants a record of the content, has less urgency for a response, is physically separated from the Receiver, doesn't require a lot of feedback from the Receiver, or the Message is complicated and may take some time to understand. Oral communication, however, makes more sense when the Sender is conveying a sensitive or emotional Message, needs feedback immediately, and does not need a permanent record of the conversation. Use the guide provided for deciding when to use written versus verbal communication.

Use Written Communication When:	Use Verbal Communication When:
conveying facts	conveying emotion and feelings
the message needs to become part of a permanent file	the message does not need to be permanent
there is little time urgency	there is time urgency
you do not need immediate feedback	you need immediate feedback
the ideas are complicated	the ideas are simple or can be made simple with explanations

Figure 88 Guide for When to Use Written Versus Verbal Communication

Business Use of E-Mail

The growth of e-mail has been spectacular, but it has also created challenges in managing information and an ever-increasing speed of doing business. Over 100 million adults in the United States use e-mail regularly (at least once a day)[395]. Internet users around the world send an estimated 60 billion e-mails every day, and many of those are spam or scam attempts.

That makes e-mail the second most popular medium of communication worldwide, second only to voice. A 2005 study estimated that less than 1% of all written human communications even reached paper—and we can imagine that this percentage has gone down even further since then[396]. To combat the overuse of e-

mail, companies such as Intel have even instituted "no e-mail Fridays" where all communication is done via other communication channels. Learning to be more effective in your e-mail communications is an important skill. To learn more, check out the business e-mail do's and don'ts.

Business E-Mail Do's and Don'ts[397]

1. DON'T send or forward chain e-mails.
2. DON'T put anything in an e-mail that you don't want the world to see.
3. DON'T write a Message in capital letters—this is the equivalent of SHOUTING.
4. DON'T routinely "cc" everyone all the time. Reducing inbox clutter is a great way to increase communication.
5. DON'T hit Send until you spell-check your e-mail.
6. DO use a subject line that summarizes your Message, adjusting it as the Message changes over time.
7. DO make your request in the first line of your e-mail. (And if that's all you need to say, stop there!)
8. DO end your e-mail with a brief sign-off such as, "Thank you," followed by your name and contact information.
9. DO think of a work e-mail as a binding communication.
10. DO let others know if you've received an e-mail in error.

An important, although often ignored, rule when communicating emotional information is that e-mail's lack of richness can be your loss. As we saw in the chart above, e-mail is a medium-rich channel. It can convey facts quickly. But when it comes to emotion, e-mail's flaws make it far less desirable a choice than oral communication—the 55% of nonverbal cues that make a conversation comprehensible to a listener are missing. E-mail readers don't pick up on sarcasm and other tonal aspects of writing as much as the writer believes they will, researchers note in a recent study[398]. The Sender may believe she has included these emotional signifiers in her Message. But, with words alone, those signifiers are not there. This gap between the form and content of e-mail inspired the rise of

emoticons—symbols that offer clues to the emotional side of the words in each Message. Generally speaking, however, emoticons are not considered professional in business communication.

You might feel uncomfortable conveying an emotionally laden message verbally, especially when the message contains unwanted news. Sending an e-mail to your staff that there will be no bonuses this year may seem easier than breaking the bad news face-to-face, but that doesn't mean that e-mail is an effective or appropriate way to deliver this kind of news. When the Message is emotional, the Sender should use verbal communication. Indeed, a good rule of thumb is that the more emotionally laden messages require more thought in the choice of channel and how they are communicated.

Direction of Communication Within Organizations

Information can move horizontally, from a Sender to a Receiver, as we've seen. It can also move vertically, down from top management or up from the front line. Information can also move diagonally between and among levels of an organization, such as a Message from a customer service representative up to a manager in the manufacturing department, or a Message from the chief financial officer sent down to all department heads.

There is a chance for these arrows to go awry, of course. As Mihaly Csikszentmihalyi, author of best-selling books such as *Flow*, has noted, "In large organizations the dilution of information as it passes up and down the hierarchy, and horizontally across departments, can undermine the effort to focus on common goals." Managers need to keep this in mind when they make organization

design decisions as part of the organizing function.

The organizational status of the Sender can affect the Receiver's attentiveness to the Message. For example, consider: A senior manager sends a memo to a production supervisor. The supervisor, who has a lower status within the organization, is likely to pay close attention to the Message. The same information, conveyed in the opposite direction, however, might not get the attention it

Figure 89 Communication flows in many different directions within an organization.

deserves. The Message would be filtered by the senior manager's perception of priorities and urgencies.

Requests are just one kind of communication in business. Other communications, either verbal or written, may seek, give, or exchange information. Research shows that frequent communications with one's supervisor is related to better job performance ratings and overall organizational performance[399]. Research also shows that lateral communication done between peers can influence important organizational outcomes such as turnover.[400]
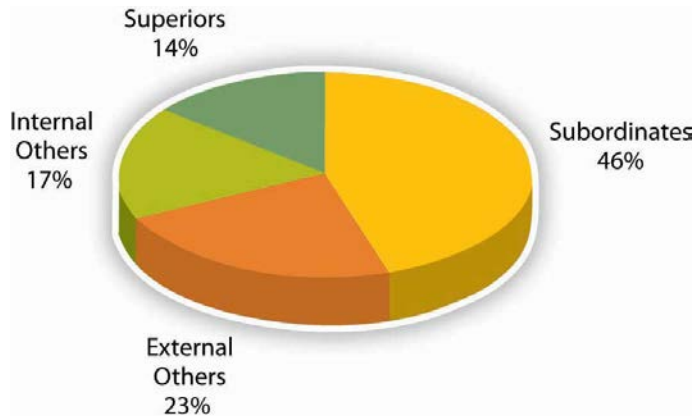
Figure 90 Who Managers Spend Time Communicating with at Work[401]

External Communications

External communications deliver specific business messages to individuals outside an organization. They may announce changes in staff or strategy, earnings, and more. The goal of an external communication is to create a specific Message that the Receiver will understand and share with others. Examples of external communications include the following:

Press Releases

Public relations professionals create external communications about a client's product, services or practices for specific Receivers. These Receivers, it is hoped, will share the Message with others. In time, as the Message is passed along, it should *appear* to be independent of The Sender, creating the illusion of an independently generated consumer trend, public opinion, and so on.

The Message of a public relations effort may be *b2b* (business to business), *b2c* (business to consumer), or media related. The Message can take different forms. Press releases try to convey a newsworthy message, real or manufactured. It may be constructed like a news item, inviting editors or reporters to reprint the Message in part, or as a whole, with or without acknowledgment of the Sender's identity. Public relations campaigns create Messages over time, through contests, special events, trade shows, and media interviews in addition to press releases.

Ads

Advertising places external business Messages before target Receivers through media buys. A media buy is a fee that is paid to a television network, Web site, or magazine by an advertiser for an on-air, site, or publication ad. The fee is based on the perceived value of the audience who watches, reads, or frequents the space where the ad will appear.

In recent years, Receivers have begun to filter advertiser's Messages, a phenomenon that is perceived to be the result of the large amount of ads the average person sees each day and a growing level of consumer wariness of paid Messaging. Advertisers, in turn, are trying to create alternative forms of advertising that Receivers won't filter. The *advertorial* is one example of an external communication that combines the look of an article with the focused Message of an ad. Product placements in videos, movies, and games are other ways that advertisers strive to reach Receivers with commercial Messages.

Web Pages

A Web page's external communication can combine elements of public relations, advertising, and editorial content, reaching Receivers on multiple levels and in multiple ways. Banner ads, blogs, and advertiser-driven "click-through" areas are just a few of the elements that allow a business to deliver a Message to a Receiver online. The perceived flexibility of online communications can impart a less formal (and, therefore, more believable) quality to an external communication. A Message relayed in a daily blog post will reach a Receiver differently than if it is delivered in an annual report, for example. The popularity and power of blogs is growing, with 11% of *Fortune* 500 companies having official blogs (up from 4% in 2005). In fact, blogs have become so important to some companies as Coca-Cola, Kodak, and Marriott that they have created official positions within their organizations titled "Chief Blogging Officer.[402]" The "real-time" quality of Web communications may appeal to Receivers who might filter out a traditional ad and public relations message because of its "prefab" quality. Despite their "spontaneous" feel, many online pages can be revisited in perpetuity. For this reason, clear and accurate external communications are as vital for online use as they are in traditional media.

Customer Communications

Customer communications can include letters, catalogs, direct mail, e-mails, text messages, and telemarketing messages. Some Receivers automatically filter bulk messages like these. Others will be receptive. The key to a successful external communication to customers is to convey a business message in a personally compelling way—dramatic news, a money-saving coupon, and so forth.

> ## KEY TAKEAWAYS
>
> - Different communication channels are more or less effective at transmitting different kinds of information.
> - Some types of communication are information rich while others are medium rich.
> - In addition, communications flow in different directions within organizations.
> - A major internal communication channel is e-mail, which is convenient but needs to be handled carefully.
> - External communication channels include PR/press releases, ads, Web pages, and customer communications such as letters and catalogs.

Chapter 11 Review Questions

Multiple Choice:

1. Within the process model of communication, a receiver _____ the message by assigning meaning to the words.
   - a. decoding
   - b. encoding
   - c. feedback
   - d. noise

2. The _____ barrier refers to filtering what we see and hear to suit our own needs.
   - a. emotional disconnects
   - b. information overload
   - c. selective perception
   - d. semantic

3. The _____ barrier is a symptom of the high tech age.
   - a. emotional disconnects
   - b. information overload
   - c. selective perception
   - d. semantic

4. A powerful silent messenger that conveys interest, aloofness, and professionalism is _____ within nonverbal communication.
   - a. body language
   - b. eye contact
   - c. facial expressions
   - d. posture

5. Research also shows that _____ communication done between peers can influence important organizational outcomes such as turnover.
   - a. diagonal
   - b. downward
   - c. lateral
   - d. upward

Short Answer:

- What are three advantages of verbal communication and what are three advantages of written communication?

- Communication flows in four general different directions within an organization; describe are the four directions and to whom.

Chapter 12 Managing Groups and Teams

Reading this chapter will help you do the following:

1. Recognize and understand group dynamics and development.

2. Understand the difference between groups and teams.

3. Understand how to organize effective teams.

4. Recognize and address common barriers to team effectiveness.

5. Build and maintain cohesive teams.

Planning	Organizing	Leading	Controlling
1. Vision & Mission 2. Strategizing 3. Goals & Objectives	1. Organization Design 2. Culture 3. Social Networks	1. Leadership 2. Decision Making 3. Communications 4. Groups/Teams 5. Motivation	1. Systems/Processes 2. Strategic Human Resources

Figure 91 The P-O-L-C Framework

Groups and teams are ubiquitous on the organizational landscape and managers will find that team management skills are required within each of the planning-organizing-leading-controlling (P-O-L-C) functions. For instance, planning may often occur in teams, particularly in less centralized organizations or toward the higher levels of the firm. When making decisions about the structure of the firm and individual jobs, managers conducting their organizing function must determine how teams will be used within the organization. Teams and groups have implications for the controlling function because teams require different performance assessments and rewards. Finally, teams and groups are a facet of the leading function. Today's managers must be both good team members and good team leaders. Managing groups and teams is a key component of leadership.

In your personal life, you probably already belong to various groups such as the group of students in your management class; you may also belong to teams, such as an athletic team or a musical ensemble. In your career, you will undoubtedly be called on to be part of, and mostly likely to manage, groups and teams.

Group Dynamics

LEARNING OBJECTIVES
1. Understand the difference between informal and formal groups.
2. Learn the stages of group development.
3. Identify examples of the punctuated equilibrium model.
4. Learn how group cohesion, social loafing, and collective efficacy can affect groups.

Because many tasks in today's world have become so complex, groups and teams have become an essential component of an organization's success. The success of the group depends on the successful management of its members and making sure all aspects of work are fair for each member. Being able to work in a group is a key skill for managers and employees alike.

Types of Groups: Formal and Informal
What is a group? A group is a collection of individuals who interact with each other such that one person's actions have an impact on the others. In organizations, most work is done within groups, and managing groups is key to each of the P-O-L-C functions. How groups function has important implications for organizational productivity. Groups where people get along, feel the desire to contribute, and are capable of coordinating their efforts may have high performance levels, whereas those characterized by extreme levels of conflict or hostility may demoralize members of the workforce.

In organizations, groups can be classified into two basic types: informal and formal. Informal work groups are made up of two or more individuals who are associated with one another in ways not prescribed by the formal organization. For example, a

few people in the company who get together to play tennis on the weekend would be considered an informal group. A formal work group is made up of managers, subordinates, or both with close associations among group members that influence the behavior of individuals in the group. We will discuss many different types of formal work groups later on in this chapter.

Stages of Group Development

American organizational psychologist Bruce Tuckman presented a robust model in 1965 that is still widely used today. On the basis of his observations of group behavior in a variety of settings, he proposed a four-stage map of group evolution, known as the Forming-Storming-Norming-Performing Model[403]. Later he enhanced the model by adding a fifth and final stage, adjourning. The phases are illustrated in the Stages of the Group Development Model. Interestingly enough, just as an individual moves through developmental stages such as childhood, adolescence, and adulthood, so does a group, although in a much shorter period of time.

According to this theory, to facilitate a group successfully, the leader needs to move through various leadership styles over time. Generally, this is accomplished by first being more direct, eventually serving as a coach, and later, once the group is able to assume more power and responsibility for itself, shifting to delegator.

While research has not confirmed that this is descriptive of how groups progress, knowing and following these steps can help groups be more effective. For example, groups that do not go through the storming phase early on will often return to this stage toward the end of the group process to address unresolved issues. Another example of the validity of the group development model involves groups that take the time to get to know each other socially in the forming stage. When this socialization occurs, groups tend to handle future challenges better because the individuals have an understanding of each other's needs.
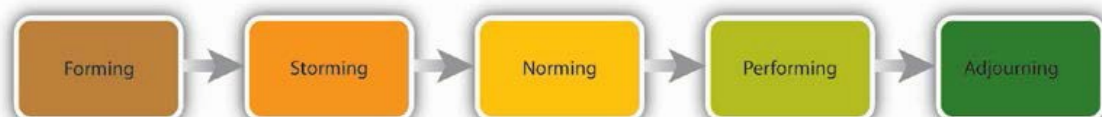
Figure 92 Stages of the Group Development Model

Forming

In the **Forming** stage, the group comes together for the first time. The members may already know each other or they may be total strangers. In either case, there is a level of formality, some anxiety, and a degree of guardedness as group members are not sure what is going to happen next. "Will I be accepted? What will my role be? Who has the power here?" These are some of the questions participants think about during this stage of group formation. Because of the large amount of uncertainty, members tend to be polite, conflict avoidant, and observant. They are trying to figure out the "rules of the game" without being too vulnerable. At this point, they may also be quite excited and optimistic about the task, perhaps experiencing a level of pride at being chosen to join a particular group.

Group members are trying to achieve several goals at this stage, although this may not necessarily be done consciously. First, they are trying to get to know one another. Often this can be accomplished by finding some common ground. Members also begin to explore group boundaries to determine what will be considered acceptable behavior. "Can I interrupt? Can I leave when I feel like it?" This trial phase may also involve testing the appointed leader or seeing whether a leader emerges from the group. At this point, group members are also discovering how the group will work in terms of what needs to be done and who will be responsible for each task. This stage is often characterized by abstract discussions about issues to be addressed by the group; those who like to get moving can become impatient with this part of the process. This phase is usually short in duration, perhaps a meeting or two.

Storming

Once group members feel sufficiently safe and included, they tend to enter the **Storming** phase. Participants focus less on keeping their guard up as they shed social facades, becoming more authentic and more argumentative. Group members begin to explore their power and influence, and they often stake out their territory by differentiating themselves from the other group members rather than seeking common ground. Discussions can become heated as participants raise

conflicting points of view and values, or disagree over how tasks should be done and who is assigned to them. It is not unusual for group members to become defensive, competitive, or jealous. They may take sides or begin to form cliques within the group. Questioning and resisting direction from the leader is also quite common. "Why should I have to do this? Who designed this project in the first place? What gives you the authority to tell me what to do?"

Although little seems to get accomplished at this stage, it actually serves an important purpose: group members are becoming more authentic as they express their deeper thoughts and feelings. What they are really exploring is "Can I truly be me, have power, and be accepted?" During this chaotic stage, a great deal of creative energy that was previously buried is released and available for use, but it takes skill to move the group from Storming to Norming. In many cases, the group gets stuck in the Storming phase. Once group members discover that they can be authentic and that the group is capable of handling differences without dissolving, they are ready to enter the next stage, Norming.

Norming

"We survived!" is the common sentiment as this stage. Group members often feel elated at this point, and they are much more committed to each other and the group's goal. Feeling energized by knowing they can handle the "tough stuff," group members are now ready to get to work. Finding themselves more cohesive and cooperative, participants find it easy to establish their own ground rules (or *norms*) and define their operating procedures and goals. The group tends to make big decisions, while subgroups or individuals handle the smaller decisions. It is hoped at this point the group members are more open and respectful toward each other and willing to ask one another for both help and feedback. They may even begin to form friendships and share more personal information.

At this point, the leader should become more of a facilitator by stepping back and letting the group assume more responsibility for its goal. Since the group's energy is running high, this is an ideal time to host a social or team-building event.

Performing

Galvanized by a sense of shared vision and a feeling of unity, the group is ready to go into high gear. Members are more interdependent, individuality and differences are respected, and group members feel themselves to be part of a greater entity. At the **Performing** stage, participants are not only getting the work done, but they also pay greater attention to *how* they are doing it. They ask such questions as, "Do our operating procedures best support productivity and quality assurance? Do we have suitable means for addressing differences that arise so we can preempt destructive conflicts? Are we relating to and communicating with each other in ways that enhance group dynamics and help us achieve our goals? How can I further develop as a person to become more effective?" By now, the group has matured, becoming more competent, autonomous, and insightful.

Group leaders can finally move into coaching roles and help members grow in skill and leadership. These leadership shifts are essential for managers enacting the Leadership function to keep in mind. In fact, a manager who leads multiple teams may find it necessary to shift leadership styles not only over time but between teams at different stages.

Adjourning

Just as groups form, so do they end. For example, many groups or teams formed in a business context are project-oriented and therefore are temporary. Alternatively, a working group may dissolve because of an organizational restructuring. As with graduating from school or leaving home for the first time, these endings can be bittersweet, with group members feeling a combination of victory, grief, and insecurity about what is coming next. For those who like routine and bond closely with fellow group members, this transition can be particularly challenging. Group leaders and members alike should be sensitive to handling these endings respectfully and compassionately. An ideal way to close a group is to set aside time to debrief ("How did it all go? What did we learn?"), acknowledge one another, and celebrate a job well done.

The Punctuated-Equilibrium Model

As you may have noted, the five-stage model we have just reviewed is a linear process. According to the model, a group progresses to the Performing stage, at which point it finds itself in an ongoing, smooth-sailing situation until the group dissolves. In reality, subsequent researchers, most notably Joy H. Karriker, have found that the life of a group is much more dynamic and cyclical in nature.[404]

For example, a group may operate in the Performing stage for several months. Then, because of a disruption, such as a competing emerging technology that changes the rules of the game or the introduction of a new CEO, the group may move back into the Storming phase before returning to Performing. Ideally, any regression in the linear group progression will ultimately result in a higher level of functioning. Proponents of this cyclical model draw from behavioral scientist Connie Gersick's study of punctuated equilibrium[405]. The concept of punctuated equilibrium was first proposed in 1972 by paleontologists Niles Eldredge and Stephen Jay Gould, who both believed that evolution occurred in rapid, radical spurts rather than gradually over time. Identifying numerous examples of this pattern in social behavior, Gersick found that the concept applied to organizational change. She proposed that groups remain fairly static, maintaining a certain equilibrium for long periods. Change during these periods is incremental, largely due to the resistance to change that arises when systems take root and processes become
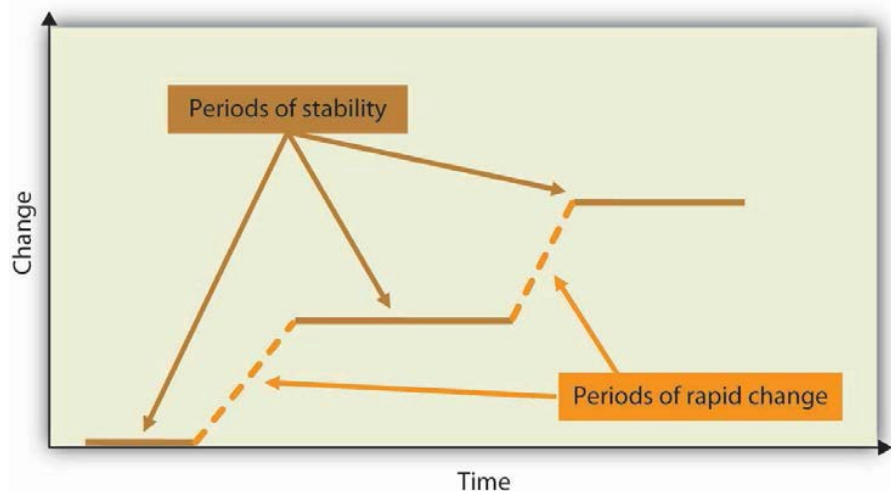
Figure 93 The Punctuated Equilibrium Model

institutionalized. In this model, revolutionary change occurs in brief, punctuated bursts, generally catalyzed by a crisis or a problem that breaks through the

systemic inertia and shakes up the deep organizational structures in place. At this point, the organization or group has the opportunity to learn and create new structures that are better aligned with current realities. Whether the group does this is not guaranteed. In sum, in Gersick's model, groups can repeatedly cycle through the Storming and Performing stages, with revolutionary change taking place during short transitional windows. For organizations and groups who understand that disruption, conflict, and chaos are inevitable in the life of a social system, these disruptions represent opportunities for innovation and creativity.

Cohesion, Social Loafing, and Collective Efficacy

Cohesion can be thought of as a kind of social glue. It refers to the degree of camaraderie within the group. Cohesive groups are those in which members are attached to each other and act as one unit. The more cohesive a group, the more productive it will be and the more rewarding the experience will be for the group's members[406]. Cohesive groups tend to have the following characteristics: they have a collective identity; they experience a moral bond and a desire to remain part of the group; they share a sense of purpose, working together on a meaningful task or cause; and they establish a structured pattern of communication. The fundamental factors affecting group cohesion include the following:

- *Similarity*. The more similar group members are in terms of age, sex, education, skills, attitudes, values, and beliefs, the more likely the group will bond.
- *Stability*. The longer a group stays together, the more cohesive it becomes.
- *Size*. Smaller groups tend to have higher levels of cohesion.
- *Support*. When group members receive coaching and are encouraged to support their fellow team members, group identity strengthens.
- *Satisfaction*. Cohesion is correlated with how pleased group members are with one another's performance, behavior, and conformity to group norms.

As you might imagine, there are many benefits in creating a cohesive group. Members are generally more personally satisfied and feel greater self-confidence

and self-esteem in a group where they feel they belong. For many, membership in such a group can be a buffer against stress, which can improve mental and physical well-being. Because members are invested in the group and its work, they are more likely to regularly attend and actively participate in the group, taking more responsibility for the group's functioning. In addition, members can draw on the strength of the group to persevere through challenging situations that might otherwise be too hard to tackle alone.

Can a Group Have Too Much Cohesion?

Despite the advantages of cohesion, too much cohesion can be detrimental to a group. Because members can come to value belonging over all else, an internal pressure to conform may arise where some members modify their behavior to adhere to group norms. Members may become conflict avoidant, focusing on trying to please one another so as not to be ostracized. In some cases, members might censor themselves to maintain the party line. As such, the group is dominated by a superficial sense of harmony and discourages diversity of thought. Having less tolerance for deviants, who threaten the group's static identity, cohesive groups will often disapprove of members who dare to disagree. Members attempting to make a change may be criticized, undermined, or even ostracized by other members, who perceive their attempts as a threat to the status quo. The painful possibility of being marginalized can keep many members in line with the majority.

The more strongly members identify with the group, the easier it is to see outsiders as inferior or, in extreme cases, as enemies. It is easy to see how this can lead to increased insularity. This form of prejudice can have a downward spiral effect. The group is not getting corrective feedback from within its own confines, and it is closing itself off from input and a cross-fertilization of ideas from the outside. In such an environment, groups can easily adopt extreme ideas that will not be challenged. Denial increases as problems are ignored and failures are blamed on external factors. With limited, often biased, information and no internal or external opposition, groups like these can make disastrous decisions.

Groupthink is a group pressure phenomenon that increases the risk of the group making flawed decisions by allowing reductions in mental efficiency, reality testing, and moral judgment. A famous example of groupthink is the decision to invade Cuba made by President John F. Kennedy and his cabinet in 1961. In a matter of days, Cuban forces repelled the invaders, whose objective was to overthrow the entire Cuban government, resulting in many casualties and captured troops. In retrospect, there were many reasons why the Bay of Pigs invasion was doomed from the start, but the planning and approval were characterized by a belief that the insiders knew best and did not need to consider "devil's advocate" points of view. As this example illustrates, groupthink is a serious risk in highly cohesive groups.[407]

Cohesive groups can go awry in much milder ways. For example, group members can value their social interactions so much that they have fun together but spend little time on accomplishing their assigned task. Or a group's goal may begin to diverge from the larger organization's goal and those trying to uphold the organization's goal may be criticized (for example, students may tease the class "brain" for doing well in school). In addition, research shows that cohesion leads to acceptance of group norms.[408] Groups with high task commitment tend to do well, but suppose you belong to a group in which the norms are to work as little as possible! As you might imagine, these groups accomplish little and can actually work together against the organization's goals.

Figure 94 Groups with high cohesion and high task commitment tend to be the most effective.

Social Loafing

Social loafing refers to the tendency of individuals to put in less effort when working in a group context. This phenomenon, also known as the Ringelmann effect, was first noted by French agricultural engineer Max Ringelmann in 1913. In one study, he had people pull on a rope individually and in groups. He found that as the number of people pulling increased, the group's total pulling force was less than the sum of individual efforts had been when measured alone[409].

Why do people work less hard when they are working with other people? Observations show that as the size of the group grows, this effect becomes larger as well[410]. The social loafing tendency is not so much a matter of laziness as a matter of perceiving that one will receive neither one's fair share of rewards if the group is successful nor blame if the group fails. Rationales for this behavior include, "My own effort will have little effect on the outcome." "Others aren't pulling their weight, so why should I?" Or "I don't have much to contribute, and no one will notice anyway." This is a consistent effect across a great number of group tasks and countries[411]. Research also shows that perceptions of fairness are related to less social loafing.[412] Therefore, teams that are deemed as more fair should also see less social loafing.

Collective Efficacy

Collective efficacy refers to a group's perception of its ability to successfully

perform well[413]. A group with high collective efficacy is one whose members share a belief in the group's capability to pursue its agreed-upon course of action and attain its goals. Collective efficacy is influenced by a number of factors, including watching others ("that group did it and we're better than them"), verbal persuasion ("we can do this"), and how a person feels ("this is a good group"). Research shows that a group's collective efficacy is positively related to its performance[414]. In addition, this relationship is stronger when task interdependence (the degree an individual's task is linked to someone else's work) is high rather than low.

KEY TAKEAWAYS

- Groups may be either formal or informal.
- Groups go through developmental stages much like individuals do.

- The Forming-Storming-Norming-Performing-Adjourning Model is useful in prescribing stages that groups should pay attention to as they develop.
- The punctuated-equilibrium model of group development argues that groups often move forward during bursts of change after long periods without change.
- Groups that are similar, stable, small, supportive, and satisfied tend to be more cohesive than groups that are not.
- Cohesion can help support group performance if the group values task completion, but too much cohesion can also be a concern for groups.
- Social loafing increases as groups become larger.
- When collective efficacy is high, groups tend to perform better.

Understanding Team Design Characteristics

LEARNING OBJECTIVES

1. Understand the difference between groups and teams.
2. Understand the factors leading to the rise in the use of teams.
3. Understand how tasks and roles affect teams.
4. Identify different types of teams.
5. Identify team design considerations.

Effective teams give companies a significant competitive advantage. In a high-functioning team, the sum is truly greater than the parts. Team members not only benefit from one another's diverse experiences and perspectives but also stimulate each other's creativity. Plus, for many people, working in a team can be more fun than working alone. Let's take a closer look at what a team is, the different team characteristics, types of teams companies use, and how to design effective teams.

Differences Between Groups and Teams

Organizations consist of groups of people. What exactly is the difference between a group and a team? A group is a collection of individuals. Within an organization, groups might consist of project-related groups such as a product group or division or they can encompass an entire store or branch of a company. The performance of a group consists of the inputs of the group minus any process losses such as the quality of a product, ramp-up time to production, or the sales for a given month. Process loss is any aspect of group interaction that inhibits group functioning.

Figure 95 Teams are only as good as their weakest link. While Michael Phelps has been dubbed "the world's greatest swimmer" and received a great deal of personal attention, such as meeting President George W. Bush, he could not have achieved his record eight gold medals in one Olympic games without the help of his teammates Aaron Peirsol, Brendan Hansen, and Jason Lezak. Source: http://simple.wikipedia.org/wiki/Image:Michael_Phelps_with_President_Bush_-_20080811.jpeg

Why do we say *group* instead of *team*? A collection of people is not a team, though they may learn to function in that way. A team is a particular type of group: a cohesive coalition of people working together to achieve mutual goals. Being on a team does not equate to a total suppression of personal agendas, but it does require a commitment to the vision and involves each individual working toward accomplishing the team's objective. Teams differ from other types of groups in that members are focused on a joint goal or product, such as a presentation, discussing a topic, writing a report, creating a new design or prototype, or winning a team Olympic medal. Moreover, teams also tend to be defined by their relatively smaller size. For instance, according to one definition, "A team is a *small* number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they are mutually accountable."[415]

The purpose of assembling a team is to accomplish larger, more complex goals than what would be possible for an individual working alone or even the simple sum of several individuals working independently. Teamwork is also needed in cases where multiple skills are tapped or where buy-in is required from several individuals. Teams can, but do not always, provide improved performance. Working together to further a team agenda seems to increase mutual cooperation between what are often competing factions. The aim and purpose of a team is to perform, get results, and achieve victory in the workplace. The best managers are those

who can gather together a group of individuals and mold them into an effective team.

The key properties of a true team include **collaborative action** where, along with a common goal, teams have collaborative tasks. Conversely, in a group, individuals are responsible only for their own area. They also share the rewards of strong team performance with their **compensation based on shared outcomes**. Compensation of individuals must be based primarily on a shared outcome, not individual performance. Members are also willing to **sacrifice for the common good** in which individuals give up scarce resources for the common good instead of competing for those resources. For example, teams occur in sports such as soccer and basketball, in which the individuals actively help each other, forgo their own chance to score by passing the ball, and win or lose collectively as a team.

Teams in Organizations

The early 1990s saw a dramatic rise in the use of teams within organizations, along with dramatic results such as the Miller Brewing Company increasing productivity 30% in the plants that used self-directed teams compared with those that used the traditional organization. This same method allowed Texas Instruments in Malaysia to reduce defects from 100 parts per million to 20 parts per million. In addition, Westinghouse reduced its cycle time from 12 weeks to 2 weeks, and Harris Electronics was able to achieve an 18% reduction in costs[416]. The team method has served countless companies over the years through both quantifiable improvements and more subtle individual worker-related benefits.

Companies such as Square D, a maker of circuit breakers, switched to self-directed teams and found that overtime on machines like the punch press dropped 70% under teams. Productivity increased because the setup operators   were able to manipulate the work in much more effective ways than a supervisor   could dictate.[417]

In 2001, clothing retailer Chico's FAS was looking to grow its business. The company hired Scott Edmonds as president, and two years later revenues had

almost doubled from $378 million to $760 million. By 2006, revenues were $1.6 billion, and Chico's had nine years of double-digit same-store sales growth. What did Edmonds do to get these results? He created a horizontal organization "ruled by high-performance teams with real decision-making clout and accountability for results, rather than by committees that pass decisions up to the next level or toss them over the wall into the nearest silo."

The use of teams also began to increase because advances in technology have resulted in more complex systems that require contributions from multiple people across the organization. Overall, team-based organizations have more motivation and involvement, and teams can often accomplish more than individuals[418]. It is no wonder organizations are relying on teams more and more.

Do We Need a Team?

Teams are not a cure-all for organizations. To determine whether a team is needed, organizations should consider whether a variety of knowledge, skills, and abilities are needed, whether ideas and feedback are needed from different groups within the organization, how interdependent the tasks are, if wide cooperation is needed to get things done, and whether the organization would benefit from shared goals[419]. If the answer to these questions is "yes," then a team or teams might make sense. For example, research shows that the more team members perceive that outcomes are interdependent, the better they share information and the better they perform[420].

Team Tasks and Roles

Teams differ in terms of the tasks they are trying to accomplish and the roles team members play. As early as the 1970s, J. R. Hackman identified three major classes of tasks: (1) production tasks, (2) idea generation tasks, and (3) problem-solving tasks.[421]

Production tasks include actually making something, such as a building, a product, or a marketing plan. Idea generation tasks deal with creative tasks, such as brainstorming a new direction or creating a new process. Problem-solving tasks

refer to coming up with plans for actions and making decisions, both facets of managerial P-O-L-C functions (planning and leading). For example, a team may be charged with coming up with a new marketing slogan, which is an idea generation task, while another team might be asked to manage an entire line of products, including making decisions about products to produce, managing the production of the product lines, marketing them, and staffing their division. The second team has all three types of tasks to accomplish at different points in time.

Task Interdependence

Another key to understanding how tasks are related to teams is to understand their level of task interdependence. Task interdependence refers to the degree that team members depend on one another to get information, support, or materials from other team members to be effective. Research shows that self- managing teams are most effective when their tasks are highly interdependent[422]. There are three types of task interdependence. Pooled interdependence exists when team members may work independently and simply combine their efforts to create the team's output. For example, when students meet to divide the sections of a research paper and one person simply puts all the sections together to create one paper, the team is using the pooled interdependence model. However, they might decide that it makes more sense to start with one person writing the introduction of their research paper, then the second person reads what was written by the first person and, drawing from this section, writes about the findings within the paper. Using the findings section, the third person writes the conclusions. If one person's output becomes another person's input, the team would be experiencing sequential interdependence. And finally, if the student team decided that in order to create a top notch research paper they should work together on each phase of the research paper so that their best ideas would be captured at each stage, they would be undertaking reciprocal interdependence. Another important type of interdependence that is not specific to the task itself is outcome interdependence, where the rewards that an individual receives depend on the performance of others.

Team Roles

While relatively little research has been conducted on team roles, recent studies show that individuals who are more aware of team roles and the behavior required for each role perform better than individuals that do not. This fact remains true for both student project teams as well as work teams, even after accounting for intelligence and personality[423]. Early research found that teams tend to have two categories of roles: those related to the tasks at hand and those related to the team's functioning. For example, teams that only focus on production at all costs may be successful in the short run, but if they pay no attention to how team members feel about working 70 hours a week, they are likely to experience high turnover. On the basis of decades of research on teams, 10 key roles have been identified.[424] Team leadership is effective when leaders are able to adapt the roles they are contributing to or asking others to contribute to fit what the team needs, given its stage and the tasks at hand.[425] Ineffective leaders might always engage in the same task role behaviors when what they really need to do is focus on social roles, put disagreements aside, and get back to work. While these behaviors can be effective from time to time, if the team doesn't modify its role behaviors as things change, they most likely will not be effective.

Task Roles

Five roles make up the task portion of the role typology.[426] The **contractor role** includes behaviors that serve to organize the team's work, including creating team time lines, production schedules, and task sequencing. The **creator role** deals more with changes in the team's task process structure. For example, reframing the team goals and looking at the context of goals would fall under this role. The
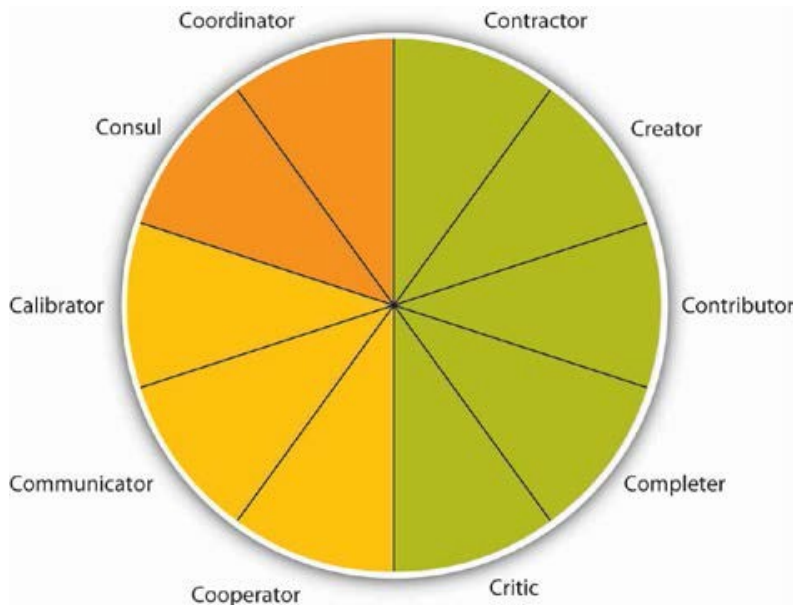
Figure 96 Teams are based on many roles being carried out as summarized by the Team Role Typology. These 10 roles include task roles (green), social roles (yellow), and boundary spanning roles (orange).

contributor role is important because it brings information and expertise to the team. This role is characterized by sharing knowledge and training those who have less expertise to strengthen the team. Research shows that teams with highly intelligent members and evenly distributed workloads are more effective than those with uneven workloads.[427] The **completer role** is also important as it is often where ideas are transformed into action. Behaviors associated with this role include following up on tasks such as gathering needed background information or summarizing the team's ideas into reports. Finally, the **critic role** includes "devil's advocate" behaviors which go against the assumptions being made by the team.

Social Roles

Social roles serve to keep the team operating effectively. When the social roles are filled, team members feel more cohesive and the group is less prone to suffer process losses or biases, such as social loafing, groupthink, or a lack of participation from all members. Three roles fall under the umbrella of social roles. The **cooperator role** includes supporting those with expertise toward the   team's goals. This is a proactive role. The **communicator role** includes behaviors that are targeted at collaboration such as practicing good listening skills and appropriately using humor to diffuse tense situations. Having a good communicator helps the team to feel more open to sharing ideas. And the

calibrator role is an important one and serves to keep the team on track in terms of suggesting any needed changes to the team's process. This role includes initiating discussions about potential team problems such as power struggles or other tensions. Similarly, this role may involve settling disagreements or pointing out what is working and what is not in terms of team process.

Boundary-Spanning Roles

The final two roles are related to activities outside of the team that help to connect the team to the larger organization[428]. The **consul role** includes gathering information from the larger organization and informing those within the organization about team activities, goals, and successes. Often the consul role is filled by team managers or leaders. The **coordinator role** includes interfacing with others within the organization so that the team's efforts are in line with other individuals and teams within the organization.

Types of Teams

There are many different types of teams, and a given team may be described according to multiple types. For example, a team of scientists writing a research article for publication may be temporary, virtual, and cross-functional.

Teams may be permanent or long term, but more typically, a team exists for a limited time. In fact, one-third of all teams in the United States are temporary[429]. An example of a temporary team is a task force that addresses a specific issue or problem until it is resolved. Other teams may be temporary or ongoing such as product development teams. In addition, matrix organizations have cross-functional teams where individuals from different parts of the organization staff the team, which may be temporary or long-standing.

Virtual Teams

Virtual teams are teams in which members are not located in the same physical place. They may be in different cities, states, or even different countries. Some virtual teams are formed by necessity, such as to take advantage of lower labor costs in different countries; one study found that upward of 8.4 million individuals

worldwide work virtually in at least one team.[430] Often, virtual teams are formed to take advantage of distributed expertise or time—the needed experts may be living in different cities. A company that sells products around the world, for example, may need technologists who can solve customer problems at any hour of the day or night. It may be difficult to find the caliber of people needed who would be willing to work at 2 a.m. on a Saturday, for example. So companies organize virtual technical support teams. BakBone Software, for instance, has a 13-member technical support team. Each member has a degree in computer science and is divided among offices in California, Maryland, England, and Tokyo. BakBone believes it has been able to hire stronger candidates by drawing from a diverse talent pool and hiring in different geographic regions rather than limiting hiring to one region or time zone.[431]

Despite potential benefits, virtual teams present special management challenges, particularly to the controlling function. Managers often think that they have to see team members working to believe that work is being done. Because this kind of oversight is impossible in virtual team situations, it is important to devise evaluation schemes that focus on deliverables. Are team members delivering what they said they would? In self-managed teams, are team members producing the results the team decided to measure itself on?

Another special challenge of virtual teams is building trust. Will team members deliver results just as they would in face-to-face teams? Can members trust one another to do what they said they would do? Companies often invest in bringing a virtual team together at least once so members can get to know one another and build trust.[432] In manager-led virtual teams, managers should be held accountable for their team's results and evaluated on their ability as a team leader.

Finally, communication is especially important in virtual teams, through e-mail, phone calls, conference calls, or project management tools that help organize work. If individuals in a virtual team are not fully engaged and tend to avoid conflict, team performance can suffer[433].

A wiki is an Internet-based method for many people to collaborate and contribute to a document or discussion. Essentially, the document remains available for team members to access and amend at any time. The most famous example is Wikipedia, which is gaining traction as a way to structure project work globally and get information into the hands of those that need it. Empowered organizations put information into everyone's hands[434]. Research shows that empowered teams are more effective than those that are not empowered.[435]

Top Management Teams

Top management teams are appointed by the chief executive officer (CEO) and, ideally, reflect the skills and areas that the CEO considers vital for the company. There are no formal rules about top management team design or structure. The top management team often includes representatives from functional areas, such as finance, human resources, and marketing or key geographic areas, such as Europe, Asia, and North America. Depending on the company, other areas may be represented such as legal counsel or the company's chief technologist. Typical top management team member titles include chief operating officer (COO), chief financial officer (CFO), chief marketing officer (CMO), or chief technology officer (CTO). Because CEOs spend an increasing amount of time outside their companies (i.e., with suppliers, customers, regulators, and so on), the role of the COO has taken on a much higher level of internal operating responsibilities. In most American companies, the CEO also serves as chairman of the board and can have the additional title of president. Companies have top management teams to help set the company's vision and strategic direction, key tasks within the planning P-O-L-C function. Top teams make decisions on new markets, expansions, acquisitions, or divestitures. The top team is also important for its symbolic role: how the top team behaves dictates the organization's culture and priorities by allocating resources and by modeling behaviors that will likely be emulated lower down in the organization. Importantly, the top team is most effective when team composition is functionally and demographically diverse and when it can truly operate as a *team*, not just as *group* of individual executives.[436]

That "the people make the place" holds especially true for members of the top management team. In a study of 15 firms that demonstrated excellence, defined as sustained performance over a 15-year period, leadership researcher Jim Collins noted that those firms attended to people first and strategy second. "They got the right people on the bus, moved the wrong people off the bus, ushered the right people to the right seats—then they figured out where to drive it.[437]" The best teams plan for turnover. **Succession planning** is the process of identifying future members of the top management team. Effective succession planning allows the best top teams to achieve high performance today and create a legacy of high performance for the future.

Team Leadership and Autonomy

Teams also vary in terms of how they are led. Traditional or manager-led teams are teams in which the manager serves as the team leader. The manager assigns work to other team members. These types of teams are the most natural to form, wherein managers have the power to hire and fire team members and are held accountable for the team's results.

Self-managed teams are a new form of team that rose in popularity with the Total Quality Movement in the 1980s. Unlike manager-led teams, these teams manage themselves and do not report directly to a supervisor. Instead, team members select their own leader, and they may even take turns in the leadership role. Self-managed teams also have the power to select new team members. As a whole, the team shares responsibility for a significant task, such as assembly of an entire car. The task is ongoing rather than temporary such as a charity fund drive for a given year.

Organizations began to use self-managed teams as a way to reduce hierarchy by allowing team members to complete tasks and solve problems on their own. The benefits of self-managed teams extend much further. Research has shown that employees in self-managed teams have higher job satisfaction, increased self-esteem, and grow more on the job. The benefits to the organization include

increased productivity, increased flexibility, and lower turnover. Self-managed teams can be found at all levels of the organization, and they bring particular benefits to lower-level employees by giving them a sense of ownership of their jobs that they may not otherwise have. The increased satisfaction can also reduce absenteeism because employees do not want to let their team members down.

Typical team goals are improving quality, reducing costs, and meeting deadlines. Teams also have a "stretch" goal, which is difficult to reach but important to the business unit. Many teams also have special project goals. Texas Instruments (TI), a company that makes semiconductors, used self-directed teams to make improvements in work processes.[438]

Teams were allowed to set their own goals in conjunction with managers and other teams. TI also added an individual component to the typical team compensation system. This individual component rewarded team members for learning new skills that added to their knowledge. These "knowledge blocks" include topics such as leadership, administration, and problem solving. The team decides what additional skills people might need to help the team meet its objectives. Team members would then take classes or otherwise demonstrate their proficiency in that new skill on the job to be certified for mastering the skill. Individuals could then be evaluated based on their contribution to the team and how they are building skills to support the team.

Self-managed teams are empowered, which means that they have the *responsibility* as well as the *authority* to achieve their goals. Team members have the power to control tasks and processes and to make decisions. Research shows that self-managed teams may be at a higher risk of suffering from negative outcomes due to conflict, so it is important that they are supported with training to help them deal with conflict effectively[439]. For a product team composed of engineering, production, and marketing employees, empowerment means that the team can decide everything about a product's appearance, production, and cost without having to get permission or sign-off from higher management. As a result,

empowered teams can more effectively meet tighter deadlines. At AT&T, for example, the model-4200 phone team cut development time in half while lowering costs and improving quality by using the empowered team approach[440]. A special form of self-managed teams are self-directed teams in which they also determine who will lead them with no external oversight.

Traditionally managed teams	Self-managed teams	Self-directed team
• Leader resides outside the team	• The team manages itself but still has a team leader	• The team makes all decisions internally about leadership and how work is done
• Potential for low autonomy	• Potential for low, medium, or high autonomy	• Potential for high autonomy

Figure 97 Team leadership is a major determinant of how autonomous a team can be.

Designing Effective Teams

Designing an effective team means making decisions about team composition (who should be on the team), team size (the optimal number of people on the team), and team diversity (should team members be of similar background, such as all engineers, or of different backgrounds). Answering these questions will depend, to a large extent, on the type of task that the team will be performing. Teams can be charged with a variety of tasks, from problem solving to generating creative and innovative ideas to managing the daily operations of a manufacturing plant.

Who Are the Best Individuals for the Team?

A key consideration when forming a team is to ensure that all the team members are **qualified** for the roles they will fill for the team. This process often entails understanding the knowledge, skills, and abilities (KSAs) of team members as well as the personality traits needed before starting the selection process[441]. When

talking to potential team members, be sure to communicate the job requirements and norms of the team. To the degree that this is not possible, such as when already existing groups are used, think of ways to train the team members as much as possible to help ensure success. In addition to task knowledge, research has shown that individuals who understand the concepts covered in this chapter and in this book such as conflict resolution, motivation, planning, and leadership actually perform better on their jobs. This finding holds for a variety of jobs, including officer in the United States Air Force, an employee at a pulp mill, or a team member at a box manufacturing plant.[442]

How Large Should My Team Be?

Interestingly, research has shown that regardless of **team size**, the most active team member speaks 43% of the time. The difference is that the team member who participates the least in a three-person team is still active 23% of the time versus only 3% in a 10-person team[443]. When deciding team size, a good rule is a size of 2 to 20 members. The majority of teams have 10 members or less because the larger the team, the harder it is to coordinate and interact as a team. With fewer individuals, team members are more able to work through differences and agree on a common plan of action. They have a clearer understanding of others' roles and greater accountability to fulfill their roles (remember social loafing?). Some tasks, however, require larger team sizes because of the need for diverse skills or because of the complexity of the task. In those cases, the best solution is to create sub-teams where one member from each sub-team is a member of a larger coordinating team. The relationship between team size and performance seems to greatly depend on the level of task interdependence, with some studies finding larger teams out producing smaller teams and other studies finding just the opposite.[444] The bottom line is that team size should be matched to the goals of the team.

How Diverse Should My Team Be?

Team composition and **team diversity** often go hand in hand. Teams whose members have complementary skills are often more successful because members

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can see each other's blind spots. One team member's strengths can compensate for another's weaknesses[445]. For example, consider the challenge that companies face when trying to forecast future sales of a given product. Workers who are educated as forecasters have the analytic skills needed for forecasting, but these workers often lack critical information about customers. Salespeople, in contrast, regularly communicate with customers, which means they're in the know about upcoming customer decisions. But salespeople often lack the analytic skills, discipline, or desire to enter this knowledge into spreadsheets and software that will help a company forecast future sales. Putting forecasters and salespeople together on a team tasked with determining the most accurate product forecast each quarter makes the best use of each member's skills and expertise.

Diversity in team composition can help teams come up with more creative and effective solutions. Research shows that teams that believe in the value of diversity performed better than teams that do not[446]. The more diverse a team is in terms of expertise, gender, age, and background, the more ability the group has to avoid the problems of groupthink.[447] For example, different educational levels for team members were related to more creativity in research and development teams and faster time to market for new products[448]. Members will be more inclined to make different kinds of mistakes, which means that they'll be able to catch and correct those mistakes.

Organizing Effective Teams

LEARNING OBJECTIVES

1. Understand how to create team norms, roles, and expectations.
2. Identify keys to running effective team meetings.

When a team is well organized, it tends to perform well. Well-designed teams are able to capitalize on positive events while maintaining composure when facing a negative event. There are several strategies that can boost team effectiveness

through effective organization.

Establishing Team Norms and Contracts

A key to successful team design is to have clear norms, roles, and expectations among team members. Problems such as social loafing or groupthink can be avoided by paying careful attention to team member differences and providing clear definitions for roles, expectancy, measurement, and rewards.

Team Norms

Norms are shared expectations about how things operate within a group or team. Just as new employees learn to understand and share the assumptions, norms, and values that are part of an organization's culture, they also must learn the norms of their immediate team. This understanding helps teams be more cohesive and perform better. Norms are a powerful way of ensuring coordination within a team. For example, is it acceptable to be late to meetings? How prepared are you supposed to be at the meetings? Is it acceptable to criticize someone else's work? These norms are shaped early during the life of a team and affect whether the team is productive, cohesive, and successful.

Team Contracts

Scientific research as well as experience working with thousands of teams show that teams that are able to articulate and agree on established ground rules, goals, and roles and develop a team contract around these standards are better equipped to face challenges that may arise within the team[449]. Having a team contract does not necessarily mean that the team will be successful, but it can serve as a road map when the team veers off course. Questions that can help to create a meaningful team contract include:

- Team Values and Goals: What are our shared team values? What is our team goal?
- Team Roles and Leadership: Who does what within this team? (Who takes notes at the meeting? Who sets the agenda? Who assigns tasks? Who runs the meetings?) Does the team have a formal leader? If so, what are his or

her roles?

- Team Decision Making: How are minor decisions made? How are major decisions made?

- Team Communication: Who do you contact if you cannot make a meeting? Who communicates with whom? How often will the team meet?

- Team Performance: What constitutes good team performance? What if a team member tries hard but does not seem to be producing quality work? How will poor attendance/work quality be dealt with?

Team Meetings

Anyone who has been involved in a team knows it involves team meetings. While few individuals relish meetings, they serve an important function in terms of information sharing and decision making. They also serve an important social function and can help to build team cohesion and a task function in terms of coordination. Unfortunately, we've all attended lengthy meetings that were a waste of time and where little happened that couldn't have been accomplished by reading an e-mail in five minutes. To run effective meetings, it helps to think of meetings in terms of three sequential steps.[450]

Before the Meeting

Much of the effectiveness of a meeting is determined before the team gathers. There are three key things you can do to ensure the team members get the most out of their meeting.

First, ask yourself: Is a meeting needed? Leaders should do a number of things before the meeting to help make it effective. The first thing is to be sure a meeting is even needed. If the meeting is primarily informational, ask yourself whether it is imperative that the group fully understands the information and whether future decisions will be built on this information. If so, a meeting may be needed. If not, perhaps simply communicating with everyone in a written format will save valuable time. Similarly, decision-making meetings make the most sense when the problem is complex and important, there are questions of fairness to be resolved, and

commitment is needed moving forward.

Second, create and distribute an agenda. An agenda is important in helping to inform those invited about the purpose of the meeting. It also helps organize the flow of the meeting and keep the team on track.

Third, send a reminder before the meeting. Reminding everyone of the purpose, time, and location of the meeting helps everyone prepare themselves. Anyone who has attended a team meeting only to find there is no reason to meet because members haven't completed their agreed-upon tasks knows that, as a result, team performance or morale can be negatively affected. Follow up to make sure everyone is prepared. As a team member, inform others immediately if you will not be ready with your tasks so they can determine whether the meeting should be postponed.

During the Meeting

During the meeting, there are several things you can do to make sure the team starts and keeps on track.

Start the meeting on time. Waiting for members who are running late only punishes those who are on time and reinforces the idea that it's OK to be late. Starting the meeting promptly sends an important signal that you are respectful of everyone's time.

Follow the meeting agenda. Veering off agenda communicates to members that it is not important. It also makes it difficult for others to keep track of where you are in the meeting and can facilitate important points not being addressed.

Manage group dynamics for full participation. As you've seen in this chapter, there are a number of group dynamics that can limit a team's functioning. Be on the lookout for full participation and engagement from all team members as well as any potential problems such as social loafing, group conflict, or groupthink.

Summarize the meeting with action items. Be sure to clarify team member roles moving forward. If individual's tasks are not clear, chances are role confusion will arise later. There should be clear notes from the meeting regarding who is responsible for each action item and the timeframes associated with next steps.

End the meeting on time. This is vitally important as it shows that you respect everyone's time and are organized. If another meeting is needed to follow up, schedule it later, but don't let the meeting run over.

After the Meeting

Follow up on action items. After the meeting you probably have several action items. In addition, it is likely that you'll need to follow up on the action items of others.

Figure 98 Conducting meetings standing up saves time yet keeps information flowing across the team.[451]

KEY TAKEAWAYS

- Much like group development, team socialization takes place over the life of the team.

- The stages move from evaluation to commitment to role transition.

- Team norms are important for the team process and help to establish who is doing what for the team and how the team will function. Creating a team contract helps with this process.

- Keys to address in a team contract are team values and goals, team roles and leadership, team decision making, team communication expectations, and how team performance is characterized.

- Team meetings can help a team coordinate and share information. Effective meetings include preparation, management during the meeting, and follow up on action items generated in the meeting.

Chapter 12 Review Questions

Multiple Choice:

1. _____ groups are made up of two or more individuals who are associated with one another in ways not prescribed.
   a. formal
   b. informal
   c. teams
   d. virtual teams

2. During the _____ stage of group development, people are more interdependent while individuality and differences are respected.
   a. forming
   b. norming
   c. performing
   d. storming

3. _____ refers to the tendency of individuals to put in less effort when working in a group context.
   a. cohesion
   b. collective efficacy
   c. groupthink
   d. social loafing

4. The task role of _____ is often where ideas are transformed into action.
   a. completer
   b. contractor
   c. contributor
   d. creator

Short Answer:

- Describe the five stages of group development.

- What does the punctuated-equilibrium model of group development argue?

Chapter 13 Motivating Employees

Reading this chapter will help you do the following:

1. Understand need-based theories of motivation.

2. Understand process-based theories of motivation.

3. Describe how fairness perceptions are determined and their consequences.

4. Learn to use performance appraisals in a motivational way.

5. Learn to apply organizational rewards in a motivational way.

6. Develop your personal motivation skills.

Motivation is defined as "the intention of achieving a goal, leading to goal- directed behavior."[452] When we refer to someone as being motivated, we mean that the person is trying hard to accomplish a certain task. Motivation is clearly important for someone to perform well. However, motivation alone is not sufficient. Ability—having the skills and knowledge required to perform the job—is also important and is sometimes the key determinant of effectiveness. Finally, environmental factors—having the resources, information, and support one needs to perform well—are also critical to determine performance.

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 99 The P-O-L-C Framework

What makes employees willing to "go the extra mile" to provide excellent service, market a company's products effectively, or achieve the goals set for them? Answering questions like this is of utmost importance to understand and manage

the work behavior of our peers, subordinates, and even supervisors. As with many questions involving human beings, the answers are anything but simple. Instead, there are several theories explaining the concept of motivation.

Performance = Motivation × Ability × Environment

Figure 100 According to this equation, motivation, ability, and environment are the major influences over employee performance.[453]

Need-Based Theories of Motivation

LEARNING OBJECTIVES

1. Explain how employees are motivated according to Maslow's hierarchy of needs.
2. Explain how ERG theory addresses the limitations of Maslow's hierarchy.
3. Describe the difference between factors contributing to employee motivation and how these differ from factors contributing to dissatisfaction.
4. Describe the needs for achievement, power, and affiliation, and how these needs affect work behavior.

The earliest answer to motivation involved understanding individual needs. Specifically, early researchers thought that employees try hard and demonstrate goal-driven behavior to satisfy needs. For example, an employee who is always walking around the office talking to people may have a need for companionship and his behavior may be a way of satisfying this need. There are four major theories in the need-based category: Maslow's hierarchy of needs, ERG theory, Herzberg's dual factor theory, and McClelland's acquired needs theory.

Maslow's Hierarchy of Needs

Abraham Maslow is among the most prominent psychologists of the 20th century and the hierarchy of needs, accompanied by the pyramid[454] representing how human needs are ranked, is an image familiar to most business students and managers. Maslow's theory is based on a simple premise: Human beings have needs that are hierarchically ranked.[455] There are some needs that are basic to all human beings, and in their absence, nothing else matters. As we satisfy these basic needs, we start looking to satisfy higher-order needs. Once a lower-level need is satisfied, it no longer serves as a motivator.
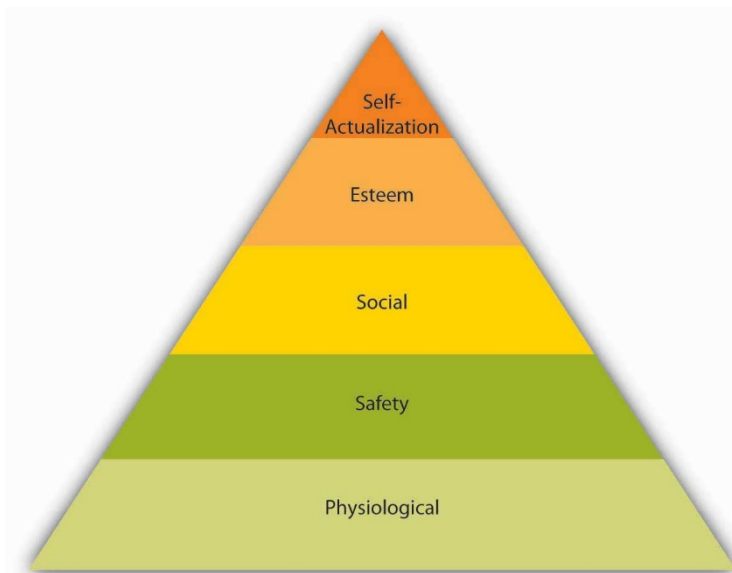
Figure 101 Maslow's Hierarchy of Needs

The most basic of Maslow's needs are physiological needs. Physiological needs refer to the need for air, food, and water. Imagine being very hungry. At that point, all your behavior may be directed at finding food. Once you eat, though, the search for food ceases and the promise of food no longer serves as a motivator. Once physiological needs are satisfied, people tend to become concerned about safety. Are they safe from danger, pain, or an uncertain future? One level up, social needs refer to the need to bond with other human beings, to be loved, and to form lasting attachments. In fact, having no attachments can negatively affect health and well-being[456]. The satisfaction of social needs makes esteem needs more salient. Esteem needs refer to the desire to be respected by one's peers, feeling important, and being appreciated. Finally, at the highest level of the hierarchy, the need for self- actualization refers to "becoming all you are

capable of becoming." This need manifests itself by acquiring new skills, taking on new challenges, and behaving in a way that will lead to the satisfaction of one's life goals.

Maslow's hierarchy is a systematic way of thinking about the different needs employees may have at any given point and explains different reactions they may have to similar treatment. An employee who is trying to satisfy her esteem needs may feel gratified when her supervisor praises her. However, another employee who is trying to satisfy his social needs may resent being praised by upper management in front of peers if the praise sets him apart from the rest of the group.

So, how can organizations satisfy their employees' various needs? By leveraging the various facets of the planning-organizing-leading-controlling (P-O-L-C) functions. In the long run, physiological needs may be satisfied by the person's paycheck, but it is important to remember that pay may satisfy other needs such as safety and esteem as well. Providing generous benefits, including health insurance and company-sponsored retirement plans, as well as offering a measure of job security, will help satisfy safety needs. Social needs may be satisfied by having a friendly environment, providing a workplace conducive to collaboration and communication with others. Company picnics and other social get-togethers may also be helpful if the majority of employees are motivated primarily by social needs (but may cause resentment if they are not and if they have to sacrifice a Sunday afternoon for a company picnic). Providing promotion opportunities at work, recognizing a person's accomplishments verbally or through more formal reward systems, job titles that communicate to the employee that one has achieved high status within the organization are among the ways of satisfying esteem needs. Finally, self-actualization needs may be satisfied by providing development and growth opportunities on or off the job, as well as by assigning interesting and challenging work. By making the effort to satisfy the different needs each employee may have at a given time, organizations may ensure a more highly motivated workforce.

ERG Theory

ERG theory of Clayton Alderfer is a modification of Maslow's hierarchy of needs[457]. Instead of the five needs that are hierarchically organized, Alderfer proposed that basic human needs may be grouped under three categories, namely, Existence, Relatedness, and Growth (see the following figure). Existence need corresponds to Maslow's physiological and safety needs, relatedness corresponds to social needs, and growth need refers to Maslow's esteem and self-actualization.

ERG theory's main contribution to the literature is its relaxation of Maslow's assumptions. For example, ERG theory does not rank needs in any particular order and explicitly recognizes that more than one need may operate at a given time.

Figure 102 ERG Theory

Moreover, the theory has a "frustration-regression" hypothesis, suggesting that individuals who are frustrated in their attempts to satisfy one need may regress to another one. For example, someone who is frustrated by the lack of growth opportunities in his job and slow progress toward career goals may regress to relatedness needs and start spending more time socializing with one's coworkers. The implication of this theory is that we need to recognize the multiple needs that may be driving an individual at a given point to understand his behavior and to motivate him.
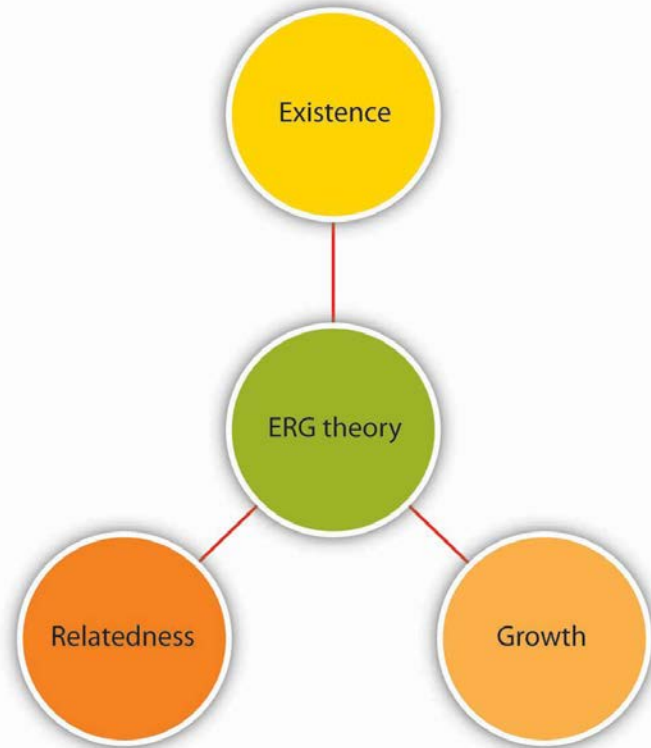
Two-Factor Theory

Frederick Herzberg approached the question of motivation in a different way. By

asking individuals what satisfies them on the job and what dissatisfies them, Herzberg came to the conclusion that aspects of the work environment that satisfy employees are very different from aspects that dissatisfy them.[458] Herzberg labeled factors causing dissatisfaction of workers as "hygiene" factors because these factors were part of the context in which the job was performed, as opposed to the job itself. Hygiene factors included company policies, supervision, working conditions, salary, safety, and security on the job. To illustrate, imagine that you are working in an unpleasant work environment. Your office is too hot in the summer and too cold in the winter. You are being harassed and mistreated.

You would certainly be miserable in such a work environment. However, if these problems were solved (your office temperature is just right and you are not harassed at all), would you be motivated? Most likely, you would take the situation for granted. In fact, many factors in our work environment are things that we miss when they are absent, but take for granted if they are present.

In contrast, motivators are factors that are intrinsic to the job, such as achievement, recognition, interesting work, increased responsibilities, advancement, and growth opportunities. According to Herzberg's research, motivators are the conditions that truly encourage employees to try harder.
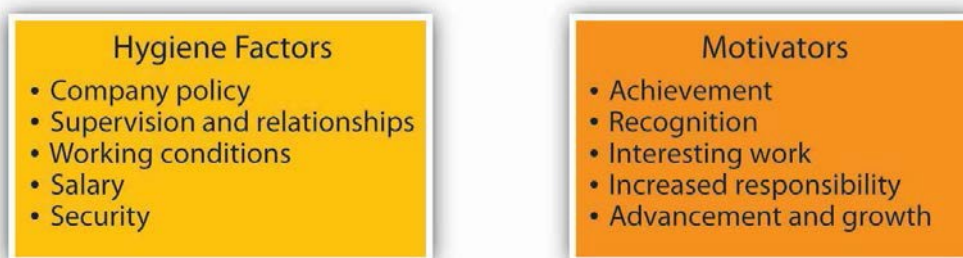
Figure 103 Two-Factor Theory of Motivation[459]

Herzberg's research, which is summarized in the figure above, has received its share of criticism.[460] One criticism relates to the classification of the factors as hygiene or motivator. For example, pay is viewed as a hygiene factor. However, pay is not necessarily a contextual factor and may have symbolic value by showing

employees that they are being recognized for their contributions as well as communicating to them that they are advancing within the company. Similarly, quality of supervision or relationships employees form with their supervisors may determine whether they are assigned interesting work, whether they are recognized for their potential, and whether they take on more responsibilities. Despite its limitations, the two- factor theory can be a valuable aid to managers because it points out that improving the environment in which the job is performed goes only so far in motivating employees.

Acquired Needs Theory

Among the need-based approaches to motivation, Douglas McClelland's acquired needs theory is the one that has received the greatest amount of support. According to this theory, individuals acquire three types of needs as a result of their life experiences. These needs are need for achievement, need for affiliation, and need for power. All individuals possess a combination of these needs.

Those who have high need for achievement have a strong need to be successful. A worker who derives great satisfaction from meeting deadlines, coming up with brilliant ideas, and planning his or her next career move may be high in need for achievement. Individuals high on need for achievement are well suited to positions such as sales where there are explicit goals, feedback is immediately available, and their effort often leads to success.[461] Because of their success in lower-level jobs, those in high need for achievement are often promoted to higher-level positions.[462]

However, a high need for achievement has important disadvantages in management. Management involves getting work done by motivating others. When a salesperson is promoted to be a sales manager, the job description changes from actively selling to recruiting, motivating, and training salespeople. Those who are high in need for achievement may view managerial activities such as coaching, communicating, and meeting with subordinates as a waste of time. Moreover, they enjoy doing things themselves and may find it difficult to delegate authority. They

may become overbearing or micromanaging bosses, expecting everyone to be as dedicated to work as they are, and expecting subordinates to do things exactly the way they are used to doing.[463]

Individuals who have a high need for affiliation want to be liked and accepted by others. When given a choice, they prefer to interact with others and be with friends[464]. Their emphasis on harmonious interpersonal relationships may be an advantage in jobs and occupations requiring frequent interpersonal interaction, such as social worker or teacher. In managerial positions, a high need for affiliation may again serve as a disadvantage because these individuals tend to be overly concerned about how they are perceived by others. Thus, they may find it difficult to perform some aspects of a manager's job such as giving employees critical feedback or disciplining poor performers.

Finally, those with high need for power want to influence others and control their environment. Need for power may be destructive of one's relationships if it takes the form of seeking and using power for one's own good and prestige. However, when it manifests itself in more altruistic forms, such as changing the way things are done so that the work environment is more positive or negotiating more resources for one's department, it tends to lead to positive outcomes. In fact, need for power is viewed as important for effectiveness in managerial and leadership positions.[465]

McClelland's theory of acquired needs has important implications for motivating employees. While someone who has high need for achievement may respond to goals, those with high need for affiliation may be motivated to gain the approval of their peers and supervisors, whereas those who have high need for power may value gaining influence over the supervisor or acquiring a position that has decision-making authority. And, when it comes to succeeding in managerial positions, individuals who are aware of the drawbacks of their need orientation can take steps to overcome these drawbacks.

- Need-based theories describe motivated behavior as individual efforts to meet needs. According to this perspective, the manager's job is to identify what people need and then to make sure that the work environment becomes a means of satisfying these needs.

- Maslow's hierarchy categorizes human needs into physiological, safety, social, esteem, and self-actualization needs.

- ERG theory is a modification of Maslow's hierarchy, where the five needs are collapsed into three categories (existence, relatedness, and growth).

- The two-factor theory differentiates between factors that make people dissatisfied on the job (hygiene factors) and factors that truly motivate employees.

- Finally, acquired-needs theory argues that individuals possess stable and dominant motives to achieve, acquire power, or affiliate with others.

- Each of these theories explains characteristics of a work environment that motivate employees.

Process-Based Theories

LEARNING OBJECTIVES

1. Explain how employees evaluate the fairness of reward distributions.

2. List the three questions individuals consider when deciding whether to put forth effort at work.

3. Describe how managers can use learning and reinforcement principles to motivate employees.

4. Learn the role that job design plays in motivating employees.
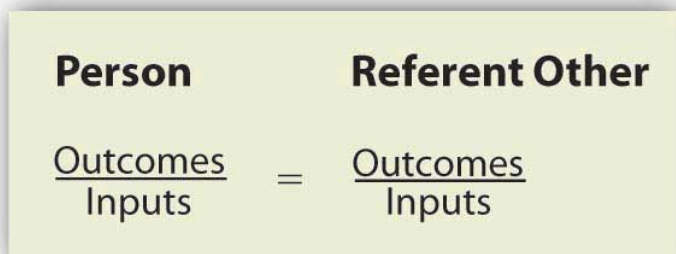
5. Describe why goal setting motivates employees.

In contrast to the need-based theories we have covered so far, process-based theories view motivation as a rational process. Individuals analyze their environment, develop reactions and feelings, and react in certain ways. Under this category, we will review equity theory, expectancy theory, and reinforcement theory. We will also discuss the concepts of job design and goal setting as motivational strategies.

Equity Theory

Imagine that your friend Marie is paid $10 an hour working as an office assistant. She has held this job for six months. She is very good at what she does, she comes up with creative ways to make things easier in the workplace, and she is a good colleague who is willing to help others. She stays late when necessary and is flexible if asked to rearrange her priorities or her work hours. Now imagine that Marie finds out her manager is hiring another employee, Spencer, who is going to work with her, who will hold the same job title and will perform the same type of tasks. Spencer has more advanced computer skills, but it is unclear whether these will be used on the job. The starting pay for Spencer will be $14 an hour. How would Marie feel? Would she be as motivated as before, going above and beyond her duties?

If your reaction to this scenario was along the lines of "Marie would think it's unfair," your feelings may be explained using equity theory[466]. According to this theory, individuals are motivated by a sense of fairness in their interactions. Moreover, our sense of fairness is a result of the social comparisons we make. Specifically, we compare our inputs and

Figure 104 The Equity Formula

outputs with someone else's inputs and outputs. We perceive fairness if we believe that the input-to-output ratio we are bringing into the situation is similar to the input/output ratio of a comparison person, or a referent. Perceptions of inequity create tension within us and drive us to action that will reduce perceived inequity. This process is illustrated in the Equity Formula.[467]

What Are Inputs and Outputs?

Inputs are the contributions the person feels he or she is making to the environment. In the previous example, the hard work Marie was providing, loyalty to the organization, the number of months she has worked there, level of education, training, and her skills may have been relevant inputs. Outputs are the rewards the person feels he or she is receiving from the situation. The $10 an hour Marie is receiving was a salient output. There may be other outputs, such as the benefits received or the treatment one gets from the boss. In the prior example, Marie may reason as follows: "I have been working here for six months. I am loyal and I perform well (inputs). I am paid $10 an hour for this (outputs). The new guy, Spencer, does not have any experience here (referent's inputs) but will be paid $14 (referent's outcomes). This situation is unfair."

We should emphasize that equity perceptions develop as a result of a subjective process. Different people may look at exactly the same situation and perceive different levels of equity. For example, another person may look at the same scenario and decide that the situation is fair because Spencer has computer skills and the company is paying extra for these skills.

Who Is the Referent?

The referent other may be a specific person or an entire category of people. For example, Marie might look at want ads for entry-level clerical workers and see whether the pay offered is in the $10 per hour range; in this case, the referent other is the category of entry-level clerical workers, including office assistants, in Marie's local area. Referents should be comparable to us—otherwise the comparison is not meaningful. It would be illogical for Marie to compare herself to

the CEO of the company, given the differences in the nature of inputs and outcomes. Instead, she would logically compare herself to those performing similar tasks within the same organization or a different organization.

Reactions to Unfairness

The theory outlines several potential reactions to perceived inequity, which are summarized in Table 1 "Potential Responses to Inequity". Oftentimes, the situation may be dealt with perceptually, by *distorting our perceptions of our own or referent's inputs and outputs*. For example, Marie may justify the situation by downplaying her own inputs ("I don't really work very hard on this job"), valuing the outputs more highly ("I am gaining valuable work experience, so the situation is not that bad"), distorting the other person's inputs ("Spencer really is more competent than I am and deserves to be paid more") or distorting the other person's outputs ("Spencer gets $14 but will have to work with a lousy manager, so the situation is not unfair")[468].

Table 10 Potential Responses to Inequity

Reactions to inequity	Example
Distort perceptions	Changing one's thinking to believe that the referent actually is more skilled than previously thought
Increase referent's inputs	Encouraging the referent to work harder
Reduce own input	Deliberately putting forth less effort at work. Reducing the quality of one's work
Increase own outcomes	Negotiating a raise for oneself or using unethical ways of increasing rewards such as stealing from the company
Change referent	Comparing oneself to someone who is worse off
Leave the situation	Quitting one's job
Seek legal action	Suing the company or filing a complaint if the unfairness in question is under legal protection

Another way of addressing perceived inequity is to reduce one's own inputs or increase one's own outputs. If Marie works less hard, perceived inequity would be reduced. And, indeed, research shows that people who perceive inequity tend to reduce their work performance or reduce the quality of their inputs[469]. Increasing one's outputs can be achieved through legitimate means such as negotiating a pay raise. At the same time, research shows that those feeling inequity sometimes resort to stealing to balance the scales[470]. Other options include *changing the comparison person* (for example, Marie may learn that others doing similar work in different organizations are paid only minimum wage) and *leaving the situation* by quitting one's job[471]. We might even consider taking legal action as a potential outcome of perceived inequity. For example, if Marie finds out that the main reason behind the pay gap is gender, she may react to the situation by taking legal action because sex discrimination in pay is illegal in the United States.

Overpayment Inequity

What would you do if you felt you were over rewarded? In other words, how would you feel if you were the new employee, Spencer (and you knew that your coworker Marie was being paid $4 per hour less than you)? Originally, equity theory proposed that over rewarded individuals would experience guilt and would increase their effort to restore perceptions of equity. However, research does not provide support for this argument. Instead, it seems that individuals experience less distress as a result of being over rewarded[472]. It is not hard to imagine that individuals find perceptual ways to deal with a situation like this, such as believing that they have more skills and bring more to the situation compared with the referent person. Therefore, research does not support equity theory's predictions with respect to people who are overpaid.[473]

Individual Differences in Reactions to Inequity

So far, we have assumed that once people feel that the situation is inequitable, they will be motivated to react. However, does inequity disturb everyone equally? Researchers identified a personality trait that explains different reactions to inequity and named this trait equity sensitivity[474]. Equity sensitive individuals

experience distress when they feel they are over rewarded or under rewarded and expect to maintain equitable relationships. At the same time, there are some individuals who are benevolents who give without waiting to receive much in return and entitleds who expect to receive a lot without giving much in return. Thus, the theory is more useful in explaining the behavior of equity sensitive individuals, and organizations will need to pay particular attention to how these individuals view their relationships.

Fairness Beyond Equity: Procedural and Interactional Justice

Equity theory looks at perceived fairness as a motivator. However, the way equity theory defines fairness is limited to fairness regarding rewards. Starting in the 1970s, researchers of workplace fairness began taking a broader view of justice. Equity theory deals with outcome fairness, and therefore, it is considered to be a distributive justice theory. Distributive justice refers to the degree to which the outputs received from the organization are fair. Two other types of fairness have been identified: Procedural justice and interactional justice.

Let's assume that Marie found out she is getting a promotion that will include a pay raise, increased responsibilities, and prestige. If Marie feels she deserves to be promoted, she would perceive high distributive justice ("getting the promotion is fair"). However, Marie later found out that the department manager picked her name out of a hat! What would she feel? She might still like the outcome but feel that the decision-making process was unfair since it wasn't based on performance. This response would involve feelings of procedural injustice. Procedural justice refers to the degree to which fair decision-making procedures are used. Research shows that employees care about procedural justice for many organizational decisions, including layoffs, employee selection, surveillance of employees, performance appraisals, and pay decisions[475].

They tend to care about procedural justice particularly when they do not get the outcome they feel they deserve.[476] If Marie does not get the promotion and finds

out that management chose the candidate by picking a name out of a hat, she may view this as adding insult to injury. When people do not get the rewards they want, they tend to hold management responsible if procedures are not fair[477]. Research has identified many ways of achieving procedural justice. For example, giving employees *advance notice* before laying them off, firing them, or disciplining them is perceived as fairer[478].

When designing a performance appraisal system or implementing a reorganization, asking employees for their input may be a good idea because it increases perceptions of fairness. Even when it is not possible to have employees participate, providing *explanations* is helpful in fostering procedural justice.[479] Finally, people expect *consistency* in treatment[480]. If one person is given extra time when taking a test while another is not, individuals would perceive decision making as unfair.

Now let's imagine Marie's boss telling her she is getting the promotion. The manager's exact words: "Yes, Marie, we are giving you the promotion. The job is so simple that we thought even you can handle it." Now what is Marie's reaction? The unpleasant feelings she may now experience are explained by interactional justice. Interactional justice refers to the degree to which people are treated with respect, kindness, and dignity in interpersonal interactions. We expect to be treated with dignity by our peers, supervisors, and customers. When the opposite happens, we feel angry. Even when faced with negative outcomes such as a pay cut, being treated with dignity and respect serves as a buffer and alleviates our stress.[481]

Employers would benefit from paying attention to all three types of justice perceptions. In addition to being the right thing to do, justice perceptions lead to outcomes companies care about. Injustice is directly harmful to employee psychological health and well-being and contributes to stress[482]. High levels of justice create higher levels of employee commitment to organizations, are related to higher job performance, higher levels of organizational citizenship (behaviors

that are not part of one's job description but help the organization in other ways such as speaking positively about the company and helping others), and higher levels of customer satisfaction, whereas low levels of justice lead to retaliation and supporting union certification movements.[483]

Expectancy Theory

According to expectancy theory, individual motivation to put forth more or less effort is determined by a rational calculation[484]. According to this theory, individuals ask themselves three questions.

The first question is whether the person believes that high levels of effort will lead to desired outcomes. This perception is labeled as expectancy. For example, do you believe that the effort you put forth in a class is related to learning worthwhile material and receiving a good grade? If you do, you are more likely to put forth effort.

Figure 105 Summary of Expectancy Theory[485]

The second question is the degree to which the person believes that performance is related to secondary outcomes such as rewards. This perception is labeled as instrumentality. For example, do you believe that passing the class is related to rewards such as getting a better job, or gaining approval from your instructor, from your friends, or parents? If you do, you are more likely to put forth effort.

Finally, individuals are also concerned about the value of the rewards awaiting them as a result of performance. The anticipated satisfaction that will result from an outcome is labeled as valence. For example, do you value getting a better job or gaining approval from your instructor, friends, or parents? If these outcomes are desirable to you, you are more likely to put forth effort.

As a manager, how can you influence these perceptions to motivate employees? In fact, managers can influence all three perceptions.[486] To influence their expectancy perceptions, managers may train their employees, or hire people who are qualified for the jobs in question. Low expectancy may also be due to employees feeling that something other than effort predicts performance, such as political behaviors on the part of employees. In this case, clearing the way to performance and creating an environment in which employees do not feel blocked will be helpful. The first step in influencing instrumentality is to connect pay and other rewards to performance using bonuses, award systems, and merit pay. Publicizing any contests or award programs is helpful in bringing rewards to the awareness of employees. It is also important to highlight that performance and not something else is being rewarded. For example, if a company has an employee-of-the-month award that is rotated among employees, employees are unlikely to believe that performance is being rewarded. In the name of being egalitarian, such a reward system may actually hamper the motivation of highest performing employees by eroding instrumentality. Finally, to influence valence, managers will need to find out what their employees value. This can be done by talking to employees, or surveying them about what rewards they find valuable.

Reinforcement Theory

Reinforcement theory is based on the work of Ivan Pavlov in behavioral conditioning and the later work B. F. Skinner did on operant conditioning[487]. According to this theory, behavior is a function of its consequences. Imagine that even though no one asked you to, you stayed late and drafted a report. When the manager found out, she was ecstatic and took you out to lunch and thanked you genuinely. The consequences following your good deed were favorable, and therefore you are more likely to do similar good deeds in the future. In contrast, if your manager had said nothing about it and ignored the sacrifice you made, you would be less likely to demonstrate similar behaviors in the future, or your behavior would likely become extinct.

Despite the simplicity of reinforcement theory, how many times have you seen

positive behavior ignored or, worse, negative behavior rewarded? In many organizations, this is a familiar scenario. People go above and beyond the call of duty, and yet their behaviors are ignored or criticized. People with disruptive habits may receive no punishments because the manager is afraid of the reaction the person will give when confronted. They may even receive rewards such as promotions so that the person is transferred to a different location and becomes someone else's problem! Moreover, it is common for people to be rewarded for the wrong kind of behavior. Steven Kerr labeled this phenomenon as "the folly of rewarding A while hoping for B."[488] For example, a company may make public statements about the importance of quality. Yet, they choose to reward shipments on time regardless of the number of known defects contained in the shipments. As a result, employees are more likely to ignore quality and focus on hurrying the delivery process.

Reinforcement Interventions

Reinforcement theory describes four interventions to modify employee behavior. Two of these are methods of increasing the frequency of desired behaviors while the remaining two are methods of reducing the frequency of undesired behaviors.

Positive reinforcement is a method of increasing the desired behavior[489]. Positive reinforcement involves making sure that behavior is met with positive consequences. Praising an employee for treating a customer respectfully is an example of positive reinforcement. If the praise immediately follows the positive behavior, the employee will see a link between behavior and positive consequences and will be motivated to repeat similar behaviors.

Negative reinforcement is also used to increase the desired behavior. Negative reinforcement involves removal of unpleasant outcomes once desired behavior is demonstrated. Nagging an employee to

Positive Reinforcement	Negative Reinforcement
Positive behavior followed by positive consequences (Manager praises the employee)	Positive behavior followed by removal of negative consequences (Manager stops nagging the employee)
Punishment	Extinction
Negative behavior followed by negative consequences (Manager demotes the employee)	Negative behavior followed by removal of positive consequences (Manager ignores the behavior)

Figure 106 Reinforcement Methods

complete a report is an example of negative reinforcement. The negative stimulus in the environment will remain present until positive behavior is demonstrated. The problem with negative reinforcement may be that the negative stimulus may lead to unexpected behaviors and may fail to stimulate the desired behavior. For example, the person may start avoiding the manager to avoid being nagged.

Extinction occurs when a behavior ceases as a result of receiving no reinforcement. For example, suppose an employee has an annoying habit of forwarding e-mail jokes to everyone in the department, cluttering up people's in-boxes and distracting them from their work. Commenting about the jokes, whether in favorable or unfavorable terms, may be encouraging the person to keep forwarding them. Completely ignoring the jokes may reduce their frequency.

Punishment is another method of reducing the frequency of undesirable behaviors. Punishment involves presenting negative consequences following unwanted behaviors. Giving an employee a warning for consistently being late to work is an example of punishment.

Reinforcement Schedules

In addition to types of reinforcements, the timing or schedule on which reinforcement is delivered has a bearing on behavior[490]. Reinforcement is presented on a continuous schedule if reinforcers follow all instances of positive behavior. An example of a continuous schedule would be giving an employee a sales commission every time he makes a sale. Fixed ratio schedules involve providing rewards every *n*th time the right behavior is demonstrated, for example, giving the employee a bonus for every 10th sale he makes. Fixed interval schedules involve providing a reward after a specified period of time, such as giving a sales bonus once a month regardless of how many sales have been made. Variable ratio involves a random pattern, such as giving a sales bonus every time the manager is in a good mood. A systematic way in which reinforcement theory principles are applied is called Organizational Behavior Modification (or OB Mod)[491].

This is a systematic application of reinforcement theory to modify employee behaviors. The model consists of five stages. The process starts with identifying the behavior that will be modified. Let's assume that we are interested in reducing absenteeism among employees. In step 2, we need to measure the baseline level of absenteeism. In step 3, the behavior's antecedents and consequences are determined. Why are employees absent? More importantly, what is happening when an employee is absent? If the behavior is being unintentionally rewarded, we may expect these to reinforce absenteeism behavior. For example, suppose that absences peak each month on the days when a departmental monthly report is due, meaning that coworkers and supervisors must do extra work to prepare the report. To reduce the frequency of absenteeism, it will be necessary to think of financial or social incentives to follow positive behavior and negative consequences to follow negative behavior. In step 4, an intervention is implemented. Removing the positive consequences of negative behavior may be an effective way of dealing with the situation, for example, starting the monthly report preparation a few days earlier, or letting employees know that if they are absent when the monthly report is being prepared, their contribution to the report

will be submitted as incomplete until they finish it. Punishments may be used in persistent cases. Finally, in step 5 the behavior is measured periodically and maintained. Studies examining the effectiveness of OB Mod have been supportive of the model in general. A review of the literature found that OB Mod interventions resulted in an average of 17% improvement in performance.[492]

Figure 107 Stages of OB Modification[493]

Job Design

Many of us assume that the most important motivator at work would be pay. Yet, studies point to a different factor as the major influence over worker motivation: Job design. How a job is designed has a major impact on employee motivation, job satisfaction, commitment to organization, as well as absenteeism and turnover. Job design is just one of the many organizational design decisions managers must make when engaged in the organizing function. The question of how to properly design jobs so that employees are more productive and more satisfied has received managerial and research attention since the beginning of the 20th century.

Scientific Management and Job Specialization

Perhaps the earliest attempt to design jobs was presented by Frederick Taylor in his 1911 book *Principles of Scientific Management*. Scientific management proposed a number of ideas that have been influential in job design. One idea was to minimize waste by identifying the best method to perform the job to ensure maximum efficiency. Another one of the major advances of scientific management

was job specialization, which entails breaking down tasks to their simplest components and assigning them to employees so that each person would perform few tasks in a repetitive manner. While this technique may be very efficient in terms of automation and standardization, from a motivational perspective, these jobs will be boring and repetitive and therefore associated with negative outcomes such as absenteeism[494]. Job specialization is also an ineffective way of organizing jobs in rapidly changing environments where employees close to the problem should modify their approach based on the demands of the situation.[495]

Rotation, Job Enlargement, and Enrichment

One of the early alternatives to job specialization was job rotation, which involves moving employees from job to job at regular intervals, thereby relieving the monotony and boredom typical in repetitive jobs. For example, Maids International, a company that provides cleaning services to households and businesses, uses job rotation such that maids cleaning the kitchen in one house would clean the bedroom in another house.[496] Using this technique, among others, the company was able to reduce its turnover level. In a study conducted in a supermarket, cashiers were rotated to work in different departments. As a result of the rotation, employee stress level was reduced as measured by their blood pressure. Moreover, they reported fewer pain symptoms in their neck and shoulders.[497] Job rotation has a number of advantages for organizations. It is an effective way for employees to acquire new skills, as the rotation involves cross-training to new tasks; this means that organizations increase the overall skill level of their employees.[498] In addition, job rotation is a means of knowledge transfer between departments[499]. For the employees, rotation is a benefit because they acquire new skills, which keeps them marketable in the long run. Anecdotal evidence suggests that companies successfully rotate high-level employees to train their managers and increase innovativeness in the company. For example, Nokia uses rotation at all levels, such as assigning lawyers to act as country managers or moving network engineers to handset design. These approaches are thought to bring a fresh perspective to old problems[500]. India's information technology giant Wipro,

which employs about 80,000 employees, uses a 3-year plan to groom future leaders of the company by rotating them through different jobs.[501]

Job enlargement refers to expanding the tasks performed by employees to add more variety. Like job rotation, job enlargement can reduce boredom and monotony as well as use human resources more effectively. When jobs are enlarged, employees view themselves as being capable of performing a broader set of tasks[502]. Job enlargement is positively related to employee satisfaction and higher-quality customer services, and it increases the chances of catching mistakes[503]. At the same time, the effects of job enlargement may depend on the *type* of enlargement. For example, exclusively giving employees simpler tasks had negative consequences on employee satisfaction with the job of catching errors, whereas giving employees more tasks that require them to be knowledgeable in different areas seemed to have more positive effects[504].

Job enrichment is a job redesign technique that allows workers more control over how they perform their own tasks, giving them more responsibility. As an alternative to job specialization, companies using job enrichment may experience positive outcomes such as reduced turnover, increased productivity, and reduced absences[505]. This may be because employees who have the authority and responsibility over their own work can be more efficient, eliminate unnecessary tasks, take shortcuts, and overall increase their own performance. At the same time, there is some evidence that job enrichment may sometimes cause employees to be dissatisfied[506]. The reason may be that employees who are given additional autonomy and responsibility may expect greater levels of pay or other types of compensation, and if this expectation is not met, they may feel frustrated. One more thing to remember is that job enrichment may not be suitable for all employees[507]. Not all employees desire to have control over how they work, and if they do not have this desire, they may feel dissatisfied in an enriched job.

Job Characteristics Model

The job characteristics model is one of the most influential attempts to design jobs

to increase their motivational properties[508]. Proposed in the 1970s by Hackman and Oldham, the model describes five core job dimensions, leading to three critical psychological states, which lead to work- related outcomes. In this model, shown in the following figure, there are five core job dimensions.
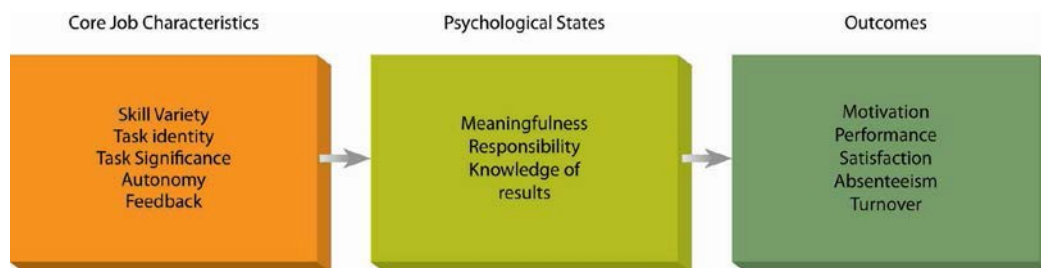
Figure 108 Job Characteristics Model[509]

Skill variety refers to the extent to which the job requires the person to use multiple high-level skills. A car wash employee whose job consists of directing employees into the automated carwash demonstrates low levels of skill variety, whereas a car wash employee who acts as a cashier, maintains carwash equipment, and manages the inventory of chemicals demonstrates high skill variety.

Task identity refers to the degree to which the person completes a piece of work from start to finish. A Web designer who designs parts of a Web site will have low task identity because the work blends in with other Web designers' work, and in the end, it will be hard for the person to claim responsibility for the final output. The Webmaster who designs the entire Web site will have high task identity.

Task significance refers to whether the person's job substantially affects other people's work, health, or well-being. A janitor who cleans the floor at an office building may find the job low in significance, thinking it is not an important job. However, janitors cleaning the floors at a hospital may see their role as essential in helping patients recover in a healthy environment. When they see their tasks as significant, employees tend to feel that they are making an impact on their environment and their feelings of self-worth are boosted.[510]

Autonomy is the degree to which the person has the freedom to decide how to

perform tasks. As an example, a teacher who is required to follow a predetermined textbook, cover a given list of topics, and use a specified list of classroom activities has low autonomy, whereas a teacher who is free to choose the textbook, design the course content, and use any materials she sees fit has higher levels of autonomy. Autonomy increases motivation at work, but it also has other benefits. Autonomous workers are less likely to adopt a "this is not my job" attitude and instead be proactive and creative[511]. Giving employees autonomy is also a great way to train them on the job. For example, Gucci's CEO Robert Polet describes autonomy he received while working at Unilever as the key to his development of leadership talents[512].

Feedback refers to the degree to which the person learns how effective he or she is at work. Feedback may come from other people such as supervisors, peers, subordinates, customers, or from the job. A salesperson who makes informational presentations to potential clients but is not informed whether they sign up has low feedback. If this salesperson receives a notification whenever someone who has heard his presentation becomes a client, feedback will be high.

The mere presence of feedback is not sufficient for employees to feel motivated to perform better, however. In fact, in about one-third of the cases, feedback was detrimental to performance[513]. In addition to whether feedback is present, the character of the feedback (positive or negative), whether the person is ready to receive the feedback, and the manner in which feedback was given will all determine whether employees feel motivated or demotivated as a result of feedback.

Goal Setting Theory

Goal setting theory is one of the most influential and practical theories of motivation. It has been supported in over 1,000 studies with employees, ranging from blue-collar workers to research and development employees, and there is strong evidence that setting goals is related to performance improvements[514]. In fact, according to one estimate, goal setting improves performance between 10%

and 25% or more[515]. On the basis of evidence such as this, thousands of companies around the world are using goal setting in some form, including companies such as Coca-Cola, PricewaterhouseCoopers, Nike, Intel, and Microsoft to name a few.

Setting SMART Goals

The mere presence of a goal does not motivate individuals. Think about New Year's resolutions that you may have made and failed to keep. Maybe you decided that you should lose some weight but then never put a concrete plan in action. Maybe you decided that you would read more but didn't. Why did you, like 97% of those who set New Year's resolutions, fail to meet your goal?

Accumulating research evidence indicates that effective goals are SMART. SMART goals are specific, measurable, achievable, realistic, and timely. Here is a sample SMART goal: Wal-Mart recently set a goal to eliminate 25% of the solid waste from its U.S. stores by the year 2009. This goal meets all the conditions of being SMART if we assume that it is an achievable goal[516]. Even though it seems like a simple concept, in reality many goals that are set within organizations may not be SMART. For example, Microsoft recently conducted an audit of its goal-setting and performance review system and found that only about 40% of the goals were specific and measurable[517].

Why Do SMART Goals Motivate?

There are at least four reasons why goals motivate[518].

First, goals give us direction; therefore, goals should be set carefully. Giving employees goals that are not aligned with company goals will be a problem because goals will direct employee's energy to a certain end. Second, goals energize people and tell them not to stop until they reach that point. Third, having a goal provides a challenge. When people have goals and when they reach them,

they feel a sense of accomplishment. Finally, SMART goals urge people to think outside the box and rethink how they are working. If a goal is substantially difficult, merely working harder will not get you the results. Instead, you will need to rethink the way you usually work and devise a creative way of working. It has been argued that this is how designers and engineers in Japan came up

Figure 109 Why do SMART goals motivate?

with the bullet train. Having a goal that went way beyond the current speed of trains prevented engineers from making minor improvements and urged them to come up with a radically different concept[519].

Are There Downsides to Goal Setting?

As with any management technique, there may be some downsides to goal setting[520]. First, setting goals for specific outcomes may hamper employee performance if employees lack skills and abilities to reach the goals. In these situations, setting goals for behaviors and for learning may be more effective than setting goals for outcomes. Second, goal setting may motivate employees to focus on a goal and ignore the need to respond to new challenges. For example, one study found that when teams had difficult goals and when employees within the team had high levels of performance orientation, teams had difficulty adapting to unforeseen circumstances[521]. Third, goals focus employee attention on the activities that are measured, which may lead to sacrificing other important

elements of performance. When goals are set for production numbers, quality may suffer. As a result, it is important to set goals touching on all critical aspects of performance. Finally, aggressive pursuit of goals may lead to unethical behaviors. Particularly when employees are rewarded for goal accomplishment but there are no rewards whatsoever for coming very close to reaching the goal, employees may be tempted to cheat.

None of these theories are complete by themselves, but each theory provides us with a framework we can use to analyze, interpret, and manage employee behaviors in the workplace, which are important skills managers use when conducting their leading function. In fact, motivation is important throughout the entire P-O-L-C framework because most managerial functions involve accomplishing tasks and goals through others.

KEY TAKEAWAYS

- Process-based theories use the mental processes of employees as the key to understanding employee motivation.
- According to equity theory, employees are demotivated when they view reward distribution as unfair. In addition to distributive justice, research identified two other types of fairness (procedural and interactional), which also affect worker reactions and motivation.
- According to expectancy theory, employees are motivated when they believe that their effort will lead to high performance (expectancy), that their performance will lead to outcomes (instrumentality), and that the outcomes following performance are desirable (valence).
- Reinforcement theory argues that behavior is a function of its consequences. By properly tying rewards to positive behaviors, eliminating rewards following negative behaviors and punishing negative behaviors, leaders can increase the frequency of desired behaviors.

- In job design, there are five components that increase the motivating potential of a job: Skill variety, task identity, task significance, autonomy, and feedback. These theories are particularly useful in designing reward systems within a company.

- Goal-setting theory is one of the most influential theories of motivation. To motivate employees, goals should be SMART (specific, measurable, achievable, realistic, and timely). Setting goals and objectives is a task managers undertake when involved in the planning portion of the P-O-L-C function.

Chapter 13 Review Questions

Multiple Choice:

1. He simplified motivation into the three areas of ERG.
   a. Alderfer
   b. Herzberg
   c. Maslow
   d. McClelland

2. _____ theory argues that employees are demotivated when they view reward distribution as unfair.
   a. equity
   b. expectancy
   c. job design
   d. reinforcement

3. _____ theory argues that behavior is a function of its consequences.
   a. equity
   b. expectancy
   c. job design
   d. reinforcement

4. _____ theory is one of the most influential and practical theories of motivation.
   a. equity
   b. expectancy
   c. goal setting
   d. reinforcement

Short Answer:

- Describe the four needs-based theories of motivation.

- Describe the five process-based theories of motivation.

Chapter 14 The Essentials of Control

Reading this chapter will help you do the following:

1. Understand what is meant by organizational control.
2. Differentiate among different levels, types, and forms of control.
3. Know the essentials of financial controls.
4. Know the essentials of nonfinancial controls.
5. Know the basics of lean control systems.
6. Craft a Balanced Scorecard for an organization or yourself.

This chapter helps you to understand the key elements of organizational control, often seen in the form of internal systems and processes, as they relate to the planning-organizing-leading-controlling (P-O-L-C) framework. While there are many possible forms and formats, organizational controls should serve two basic functions. First, they should help managers determine whether and why their strategy is achieving the desired results. Second, they should be an early warning system in cases where the organization is getting a little (or a lot) off track.

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 110 The P-O-L-C Framework

Organizational Control

LEARNING OBJECTIVES

1. Know what is meant by organizational control.
2. Recognize that controls have costs.
3. Understand the benefits of controls.

Up to this point you have probably become familiar with the planning, organizing, and leading components of the P-O-L-C framework. This section addresses the controlling component, often taking the form of internal systems and process, to complete your understanding of P-O-L-C. As you know, planning comprises all the activities associated with the formulation of your strategy, including the establishment of near- and long-term goals and objectives. Organizing and leading are the choices made about the way people work together and are motivated to achieve individual and group goals and objectives.

What Is Organizational Control?

The fourth facet of P-O-L-C, organizational control, refers to the process by which an organization influences its subunits and members to behave in ways that lead to the attainment of organizational goals and objectives. When properly designed, such controls should lead to better performance because an organization is able to execute its strategy better.[522] As shown in the P-O-L-C framework figure, we typically think of or talk about control in a sequential sense, where controls (systems and processes) are put in place to make sure everything is on track and stays on track. Controls can be as simple as a checklist, such as that used by pilots, flight crews, and some doctors[523].

Increasingly, however, organizations manage the various levels, types, and forms of control through systems called *Balanced Scorecards*. We will discuss these in detail later in the chapter. Organizational control typically involves four steps: (1) establish standards, (2) measure performance, (3) compare performance to standards, and then (4) take corrective action as needed. Corrective action can include changes made to the performance standards—setting them higher or lower or identifying new or additional standards. Sometimes we think of organizational controls only when they seem to be absent, as in the 2008

meltdown of U.S. financial markets, the crisis in the U.S. auto industry, or the much earlier demise of Enron and MCI/Worldcom due to fraud and inadequate controls. However, as shown in the figure, good controls are relevant to a large spectrum of firms beyond Wall Street and big industry.

The Need for Control in Not-for-Profit Organizations

We tend to think about controls only in the for-profit organization context. However, controls are relevant to a broad spectrum of organizations, including governments, schools, and charities. Jack Siegel, author of *A Desktop Guide for Nonprofit Directors, Officers, and Advisors: Avoiding Trouble While Doing Good*, outlines this top 10 list of financial controls that every charity should put in place[524]:

- Control 1—Require two signatures for checks written on bank and investment accounts. This prevents unapproved withdrawals and payments.
- Control 2—The organization's bank statements should be reconciled on a monthly basis by someone who does not have signature authority over the accounts. This is a further check against unapproved withdrawals and payments.
- Control 3—Since cash is particularly susceptible to theft, organizations should eliminate the use of cash to the extent possible.
- Control 4—Organizations should only purchase goods from an approved list of vendors. This provides protection from phony invoices submitted by insiders.
- Control 5—Many charities have discovered "ghost employees" on their payrolls. To minimize this risk, organizations should tightly control the payroll list by developing a system of reports between payroll/accounting and the human resources department.
- Control 6—Organizations should require all otherwise reimbursable expenses to be preauthorized. Travel and entertainment expenses should be governed by a clearly articulated written policy that is provided to all employees.

- Control 7—Physical inventories should be taken on a regular and periodic basis and then be reconciled against the inventories carried on the books. Besides the possible detection of theft, this control also provides a basis for an insurance claim in the case of a fire, flood, or other disaster.

- Control 8—Every organization should develop an annual budgeting process. The nonprofit's employees should prepare the budget, but the board should review and approve it.

- Control 9—Organizations should use a competitive bidding process for purchases above a certain threshold. In reviewing bids, organizations should look for evidence of collusion.

- Control 10—Organizations that regularly received grants with specific requirements should have someone who is thoroughly versed in grant administration.

The Costs and Benefits of Organizational Controls

Organizational controls provide significant benefits, particularly when they help the firm stay on track with respect to its strategy. External stakeholders, too, such as government, investors, and public interest groups have an interest in seeing certain types or levels of control are in place. However, controls also come at a cost. It is useful to know that there are trade-offs between having and not having organizational controls, and even among the different forms of control. Let's look at some of the predominant costs and benefits of organizational controls, which are summarized in the following figure.

Costs

Controls can cost the organization in several areas, including (1) financial, (2) damage to culture and reputation, (3) decreased responsiveness, and (4) botched implementation. An example of financial cost is the fact that organizations are often required to perform and report the results of a financial audit. These audits are typically undertaken by external accounting firms, which charge a substantial fee for their services; the auditor may be a large firm like Accenture or KPMG, or a smaller local accounting office. Such audits are a way for banks, investors, and

other key stakeholders to understand how financially fit the organization is. Thus, if an organization needs to borrow money from banks or has investors, it can only obtain these benefits if it incurs the monetary and staffing costs of the financial audit.

Controls also can have costs in terms of organization culture and reputation. While you can imagine that organizations might want to keep track of employee behavior, or otherwise put forms of strict monitoring in place, these efforts can have undesirable cultural consequences in the form of reduced employee loyalty, greater turnover, or damage to the organization's external reputation.

Management researchers such as the late London Business School professor Sumantra Ghoshal have criticized theory that focuses on the economic aspects of man (i.e., assumes that individuals are always opportunistic). According to Ghoshal, "A theory that assumes that managers cannot be relied upon by shareholders can make managers less reliable[525]." Such theory, he warned, would become a self-fulfilling prophecy.

Less theoretical are practical examples such as Hewlett-Packard's (HP) indictment on charges of spying on its own board of directors. In a letter to HP's board, director Tom Perkins said his accounts were "hacked" and attached a letter from AT&T explaining how the breach occurred. Records of calls made from Perkins's home phone were obtained simply with his home phone number and the last four digits of his Social Security number. His long-distance account records were obtained when someone called AT&T and pretended to be Perkins, according to the letter from AT&T[526]. HP Chairman Patricia Dunn defended this rather extreme form of control as legal, but the amount of damage to the firm's reputation from these charges led the firm to discontinue the practice. It also prompted the resignation of several directors and corporate officers.[527]

The third potential cost of having controls is that they can afford less organizational flexibility and responsiveness. Typically, controls are put in place to prevent

problems, but controls can also create problems. For instance, the Federal Emergency Management Agency (FEMA) is responsible for helping people and business cope with the consequences of natural disasters, such as hurricanes. After Hurricane Katrina devastated communities along the U.S. Gulf Coast in 2005, FEMA found that it could not provide prompt relief to the hurricane victims because of the many levels of financial controls that it had in place[528].

The fourth area of cost, botched implementation, may seem obvious, but it is more common than you might think (or than managers might hope). Sometimes the controls are just poorly understood, so that their launch creates significant unintended, negative consequences. For example, when Hershey Foods put a new computer-based control system in place in 1999, there were so many problems with its installation that it was not able to fulfill a large percentage of its Halloween season chocolate sales that year. It did finally get the controls in working order, but the downtime created huge costs for the company in terms of inefficiencies and lost sales[529]. Some added controls may also interfere with others. For instance, a new quality control system may improve product performance but also delay product deliveries to customers.

Benefits

Although organizational controls come at some cost, most controls are valid and valuable management tools. When they are well designed and implemented, they provide at least five possible areas of benefits, including (1) improved cost and productivity control, (2) improved quality control, (3) opportunity recognition, (4) better ability to manage uncertainty and complexity, and (5) better ability to decentralize decision making. Let's look at each one of these benefits in turn.

Summary of Control Costs and Benefits
Key Costs

- Financial costs—direct (i.e., paying for an accountant for an audit) and indirect (i.e., people such as internal quality control the organization employs whose primary function is related to control).

- Culture and reputation costs—the intangible costs associated with any form of control. Examples include damaged relationships with employees, or tarnished reputation with investors or government.
- Responsiveness costs—downtime between a decision and the actions required to implement it due to compliance with controls.
- Poorly implemented controls—implementation is botched or the implementation of a new control conflicts with other controls.

Key Benefits

- Cost and productivity control—ensures that the firm functions effectively and efficiently.
- Quality control—contributes to cost control (i.e., fewer defects, less waste), customer satisfaction (i.e., fewer returns), and greater sales (i.e., repeat customers and new customers).
- Opportunity recognition—helps managers identify and isolate the source of positive surprises, such as a new growth market. Though opportunities can also be found in internal comparisons of cost control and productivity across units.
- Manage uncertainty and complexity—keeps the organization focused on its strategy, and helps managers anticipate and detect negative surprises and respond opportunistically to positive surprises.
- Decentralized decision making—allows the organization to be more responsive by moving decision making to those closest to customers and areas of uncertainty.

First, good controls help the organization to be efficient and effective by helping managers to control costs and productivity levels. Cost can be controlled using budgets, where managers compare actual expenses to forecasted ones. Similarly, productivity can be controlled by comparing how much each person can produce, in terms of service or products. For instance, you can imagine that the productivity of a fast-food restaurant like McDonald's depends on the speed of its order takers

and meal preparers. McDonald's can look across all its restaurants to identify the target speed for taking an order or wrapping a burger, then measure each store's performance on these dimensions.

Quality control is a second benefit of controls. Increasingly, quality can be quantified in terms of response time (i.e., How long did it take you to get that burger?) or accuracy (Did the burger weigh one-quarter pound?). Similarly, Toyota tracks the quality of its cars according to hundreds of quantified dimensions, including the number of defects per car. Some measures of quality are qualitative, however. For instance, Toyota also tries to gauge how "delighted" each customer is with its vehicles and dealer service. You also may be familiar with quality control through the Malcolm Baldrige National Quality Program Award. The Baldrige award is given by the president of the United States to businesses—manufacturing and service, small and large—and to education, health care, and nonprofit organizations that apply and are judged to be outstanding in seven areas: leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and results[530]. Controlling—how well the organization measures and analyzes its processes—is a key criterion for winning the award. The Baldrige award is given to organizations in a wide range of categories and industries, from education to ethics to manufacturing.

The third area by which organizations can benefit from controls is opportunity recognition. Opportunities can come from outside of the organization and typically are the result of a surprise. For instance, when Nestlé purchased the Carnation Company for its ice cream business, it had also planned to sell off Carnation's pet food line of products. However, through its financial controls, Nestlé found that the pet food business was even more profitable than the ice cream, and kept both. Opportunities can come from inside the organization too, as would be the case if McDonald's finds that one of its restaurants is exceptionally good at managing costs or productivity. It can then take this learned ability and transfer it to other restaurants through training and other means.

Controls also help organizations manage uncertainty and complexity. This is a fourth area of benefit from well-designed and implemented controls. Perhaps the most easily understood example of this type of benefit is how financial controls help an organization navigate economic downturns. Without budgets and productivity controls in place, the organization might not know it has lost sales or expenses are out of control until it is too late.

The fifth area of benefit in organizational control is related to decentralized decision making. Organization researchers have long argued that performance is best when those people and areas of the organization that are closest to customers and pockets of uncertainty also have the ability (i.e., the information and authority) to respond to them[531]. Galbraith believes that "the greater the uncertainty of the task, the greater the amount of information that must be processed between decision makers during the execution of the task to get a given level of performance." Firms can reduce uncertainty through better planning and coordination, often by rules, hierarchy, or goals. Galbraith states that "the critical limiting factor of an organizational form is the ability to handle the non-routine events that cannot be anticipated or planned for." Going back to our McDonald's example, you can imagine that it would be hard to give a store manager information about her store's performance and possible choices if information about performance were only compiled at the city, region, or corporate level. With store-level performance tracking (or, even better, tracking of performance by the hour within a store), McDonald's gives store managers the information they need to respond to changes in local demand. Similarly, it equips McDonald's to give those managers the authority to make local decisions, track that decision-making performance, and feed it back into the control and reward systems.

Types and Levels of Control

LEARNING OBJECTIVES

1. Know the difference between strategic and operational controls.
2. Understand the different types of controls.
3. Be able to differentiate between financial and nonfinancial controls.

Recognizing that organizational controls can be categorized in many ways, it is helpful at this point to distinguish between two sets of controls: (1) strategic controls and (2) management controls, sometimes called operating controls[532].

Two Levels of Control: Strategic and Operational

Imagine that you are the captain of a ship. The strategic controls make sure that your ship is going in the right direction; management and operating controls make sure that the ship is in good condition before, during, and after the voyage. With that analogy in mind, strategic control is concerned with tracking the strategy as it is being implemented, detecting any problem areas or potential problem areas suggesting that the strategy is incorrect, and making any necessary adjustments[533]. Strategic controls allow you to step back and look at the big picture

and make sure all the pieces of the picture are correctly aligned.

Ordinarily, a significant time span occurs between initial implementation of a strategy and achievement of its intended results. For instance, if you wanted to captain your ship from San Diego to Seattle you might need a crew, supplies, fuel, and so on. You might also need to wait until the weather lets you make the trip safely! Similarly, in larger organizations, during the time you are putting the strategy into place, numerous projects are undertaken, investments are made, and actions are undertaken to implement the new strategy. Meanwhile, the environmental situation and the firm's internal situation are developing and evolving. The economy could be booming or perhaps falling into recession. Strategic controls are necessary to steer the firm through these events. They must provide some means of correcting direction on the basis of intermediate performance and new information.

Operational control, in contrast to strategic control, is concerned with executing the strategy. Where operational controls are imposed, they function within the framework established by the strategy. Normally these goals, objectives, and standards are established for major subsystems within the organization, such as business units, projects, products, functions, and responsibility centers[534]. Typical operational control measures include return on investment, net profit, cost, and product quality. These control measures are essentially summations of finer-grained control measures. Corrective action based on operating controls may have implications for strategic controls when they involve changes in the strategy.

Types of Control

It is also valuable to understand that, within the strategic and operational levels of control, there are several types of control. The first two types can be mapped across two dimensions: level of proactivity and outcome versus behavioral. The following table summarizes these along with examples of what such controls might look like.

Proactivity

Proactivity can be defined as the monitoring of problems in a way that provides their timely prevention, rather than after the fact reaction. In management, this is known as feedforward control; it addresses "what can we do ahead of time to help our plan succeed?" The essence of feedforward control is to see the problems coming in time to do something about them. For instance, feedforward controls include preventive maintenance on machinery and equipment and due diligence on investments.

Table 11 Types and Examples of Control

Control Proactivity	Behavioral control	Outcome control
Feedforward control	Organizational culture	Market demand or economic forecasts
Concurrent control	Hands-on management supervision during a project	The real-time speed of a production line
Feedback control	Qualitative measures of customer satisfaction	Financial measures such as profitability, sales growth

Concurrent Controls

The process of monitoring and adjusting ongoing activities and processes is known as concurrent control. Such controls are not necessarily proactive, but they can prevent problems from becoming worse. For this reason, we often describe concurrent control as real-time control because it deals with the present. An example of concurrent control might be adjusting the water temperature of the water while taking a shower.

Feedback Controls

Finally, feedback controls involve gathering information about a completed activity, evaluating that information, and taking steps to improve the similar activities in the future. This is the least proactive of controls and is generally a basis for reactions. Feedback controls permit managers to use information on past performance to

bring future performance in line with planned objectives.

Control as a Feedback Loop

In this latter sense, all these types of control function as a feedback mechanism to help leaders and managers make adjustments in the strategy, as perhaps is reflected by changes in the planning, organizing, and leading components. This feedback loop is characterized in the following figure.

Figure 111 Controls as Part of a Feedback Loop

Why might it be helpful for you to think of controls as part of a feedback loop in the P-O-L-C process? Well, if you are the entrepreneur who is writing the business plan for a completely new business, then you would likely start with the planning component and work your way to controlling—that is, spell out how you are going to tell whether the new venture is on track. However, more often, you will be stepping into an organization that is already operating, and this means that a plan is already in place. With the plan in place, it may be then up to you to figure out the organizing, leading, or control challenges facing the organization.

Outcome and Behavioral Controls

Controls also differ depending on what is monitored, outcomes or behaviors. Outcome controls are generally preferable when just one or two performance measures (say, return on investment or return on assets) are good gauges of a business's health. Outcome controls are effective when there's little external interference between managerial decision making on the one hand and business

performance on the other. It also helps if little or no coordination with other business units exists.

Behavioral controls involve the direct evaluation of managerial and employee decision making, not of the results of managerial decisions. Behavioral controls tie rewards to a broader range of criteria, such as those identified in the Balanced Scorecard. Behavioral controls and commensurate rewards are typically more appropriate when there are many external and internal factors that can affect the relationship between a manager's decisions and organizational performance. They're also appropriate when managers must coordinate resources and capabilities across different business units.

Financial and Nonfinancial Controls

Finally, across the different types of controls in terms of level of proactivity and outcome versus behavioral, it is important to recognize that controls can take on one of two predominant forms: financial and nonfinancial controls. Financial control involves the management of a firm's costs and expenses to control them in relation to budgeted amounts. Thus, management determines which aspects of its financial condition, such as assets, sales, or profitability, are most important, tries to forecast them through budgets, and then compares actual performance to budgeted performance. At a strategic level, total sales and indicators of profitability would be relevant strategic controls.

Without effective financial controls, the firm's performance can deteriorate. PSINet, for example, grew rapidly into a global network providing Internet services to 100,000 business accounts in 27 countries. However, expensive debt instruments such as junk bonds were used to fuel the firm's rapid expansion. According to a member of the firm's board of directors, PSINet spent most of its borrowed money "without the financial controls that should have been in place.[535]" With a capital structure unable to support its rapidly growing and financially uncontrolled operations, PSINet and 24 of its U.S. subsidiaries eventually filed for bankruptcy[536]. While we often think of financial controls as a form of outcome

control, they can also be used as a behavioral control. For instance, if managers must request approval for expenditures over a budgeted amount, then the financial control also provides a behavioral control mechanism as well.

Increasing numbers of organizations have been measuring customer loyalty, referrals, employee satisfaction, and other such performance areas that are not financial. In contrast to financial controls, nonfinancial controls track aspects of the organization that aren't immediately financial in nature but are expected to lead to positive performance outcomes. The theory behind such nonfinancial controls is that they should provide managers with a glimpse of the organization's progress well before financial outcomes can be measured[537]. And this theory does have some practical support. For instance, GE has found that highly satisfied customers are the best predictor of future sales in many of its businesses, so it regularly tracks customer satisfaction.

KEY TAKEAWAYS

- Organizational controls can take many forms.

- Strategic controls help managers know whether a chosen strategy is working, while operating controls contribute to successful execution of the current strategy.

- Within these types of strategy, controls can vary in terms of proactivity, where feedback controls were the least proactive.

- Outcome controls are judged by the result of the organization's activities, while behavioral controls involve monitoring how the organization's members behave on a daily basis.

- Financial controls are executed by monitoring costs and expenditure in relation to the organization's budget, and nonfinancial controls complement financial controls by monitoring intangibles like customer satisfaction and employee morale.

Nonfinancial Controls

LEARNING OBJECTIVES

1. Become familiar with nonfinancial controls.
2. Learn about common mistakes associated with nonfinancial controls.
3. Be able to devise possible solutions to common mistakes in nonfinancial controls.

If you have ever completed a customer satisfaction survey related to a new product or service purchase, then you are already familiar with nonfinancial controls. Nonfinancial controls are defined as controls where nonfinancial performance outcomes are measured. Why is it important to measure such outcomes? Because they are likely to affect profitability in the long term. How do we go about identifying nonfinancial controls? In some areas it is easy to do, and in others more difficult. For instance, if Success-R-Us were having trouble retaining employees (meaning that turnover is high), it might be incurring higher recruiting and training costs and lower customer satisfaction, as a result. Some possible nonfinancial controls are described next.

Examples of Nonfinancial Performance Controls

- Human Resources
    - Employee satisfaction
    - Average tenure
    - Turnover
- Marketing
    - New products launched
    - Customer satisfaction
    - Brand power
- Production
    - Number of defects
    - Product returns
    - Capacity utilization
- Purchasing
    - New products introduced by suppliers

- o Quality of purchased inputs
- Research and Development
    - o New patents
    - o Number of employees with PhDs
- Customer Service
    - o Average complaint response time
    - o Average wait time

Common Mistakes with Nonfinancial Controls

In a review of current nonfinancial control practices, Harvard professors Chris Ittner and David Larcker commented, "Tracking things like customer satisfaction and employee turnover can powerfully supplement traditional bookkeeping. Unfortunately, most companies botch the job.[538]" Ittner and Larcker somewhat cynically conclude their study by stating, "The original purpose of nonfinancial performance measures was to fill out the picture provided by traditional accounting. Instead, such measures have become a shabby substitute for financial performance.[539]" However, research also shows that those firms that put these nonfinancial controls in place, and can validate them, earn much higher profits than those that don't[540]. With the aim of working toward an understanding of how to put such controls into place, let's first look at common mistakes that organizations make.

Not Using Nonfinancial Controls

While poorly conceived and implemented nonfinancial controls are certainly a cost for organizations, such ineptness is no defense for not including them in every modern organization's system of controls. If management were a poker game, then the ability to use nonfinancial controls would be a table stake in the game—that is, you only get to play if you have skills with them. The world is simply changing too fast, and competitors' capabilities are evolving too quickly, such that managers who relied only on financial controls would soon find their organizations in trouble. You can help us come up with plenty of examples here, but let's simply look at the

relationship between customer satisfaction and a retail store's sales. A dissatisfied customer is hard to get back (and may have been dissatisfied enough to leave the store before even making that first purchase)!

While interest in nonfinancial controls is exploding, it seems somewhat disappointing that they aren't living up to the job. Why do so many companies appear to misunderstand how to set and use nonfinancial controls effectively? Let's take a look at four additional top mistakes Ittner and Larcker identified in their research.

Not Linked to Strategy

This mistake appears to be a common one but its root cause—failure to adapt the control system to the specific strategy of the organization—is not obvious. Growth in interest in nonfinancial controls has led to widespread adoption of such systems as the Balanced Scorecard, Performance Prism, or the Intellectual Capital Navigator. However, because these systems are complex, managers tend to put them in place without tailoring them to the specific needs and characteristics of their organization.

Several things can go wrong when nonfinancial controls are not linked to the strategy. First, control systems tend to be tied to reward systems, and if managers and employees are being paid based on the achievement of certain nonstrategic, nonfinancial outcomes, then the firm's strategy and, hence, performance, could suffer. Second, if the controls are not linked to the strategy, or the linkages are unclear, then managers do not really understand which nonfinancial controls are the most important. This leads us to the second common mistake.

Failing to Validate the Links

There are two big challenges that organizations face when trying to use nonfinancial controls. First, nonfinancial controls are indirectly related to financial performance; the relationship is like a sequence of nonfinancial outcomes that cascade down to financial performance. For instance, (1) good employee recruiting leads to (2) satisfied employees, which leads to (3) an employee base that creates

value, which leads to (4) satisfied customers, which leads to (5) profitable customer buying patterns, which lead to (6) good profitability. Yikes! You can see how these six nonfinancial outcomes might lead to good financial performance, but you can also imagine that it might be challenging to identify and manage the inputs to each step.

The second challenge is, once you've taken the step of identifying these linkages, to show that the linkages actually exist. However, while more companies are putting such models into place, few are collecting the information to test and validate the actual relationships in their organization. In fact, Ittner and Larcker found that less than a quarter of the firms that they surveyed actually did any formal validation of the nonfinancial model they had developed.

You can imagine the possible problems that might be created with such an unvalidated system. For one, the organization might be investing in all these steps, without any evidence of their effectiveness. Worse, some of the steps might actually lead to lower performance—unfortunately, without validation, managers just don't know. For example, an organization might believe that better technology in a product leads to more sales. If this technology also leads to a higher-cost product, and customers are very price-sensitive, then the new technology nonfinancial control could lead to worse financial performance.

Failing to Set Appropriate Performance Targets

The third common area of weakness in the use of nonfinancial controls is somewhat related to the second. Our example with technology shows this relationship well. For instance, managers might not have validated the link between better technology and downstream customer purchasing preferences; or, technology might have been important, but only up to the point that it did not affect product price. So, while technology was a valid part of our nonfinancial controls, we also need to consider the appropriate level of technology—that is, set the right nonfinancial objective for level of technology, customer service, or whatever nonfinancial control is of interest.

You can imagine that a firm might want to set high goals, and therefore control, for such things as customer satisfaction or employee turnover. But you can probably also imagine what the costs might be of getting 100% customer satisfaction or zero employee turnover. At some point, you have to make some cost-benefit decisions unless your resources (time, money, etc.) are unlimited.

Failing to set appropriate performance targets can take on another form. In such cases, instead of setting inappropriate nonfinancial controls and related targets, the organization simply has set too many[541]. This can happen when a new control system is put in place, but the old one is not removed. Just as often, it can occur because management has not made the hard choices about which nonfinancial controls are most important and invested in validating their usage.

Measurement Failure

We have seen so far that the first three common failings are (1) failure to tie nonfinancial controls to the strategy, (2) failure to validate the relationships between nonfinancial and financial controls, and (3) failure to set the appropriate nonfinancial control targets. The fourth failing is somewhat technical, but it also relates to validity and validation—that is, in many cases, an inappropriate measure is used to assess whether a targeted nonfinancial control is being achieved.

This can happen for a number of reasons. First, different parts of the business may assess customer satisfaction differently. This makes it very hard to evaluate consistently the relationship between customer satisfaction (a nonfinancial control) and financial performance. Second, even when a common basis for evaluation is used, the meaning may not be clear in the context of how it is measured. For example, if you created a simple survey of customer satisfaction, where you were scored on a range from 1 (satisfied) to 7 (unsatisfied), what does each individual score between 1 and 7 mean? Finally, sometimes the nonfinancial control or objective is complex. Customer or employee satisfaction, for instance, are not necessarily easily captured on a scale of 1 to 7. Now imagine trying to introduce controls for leadership ability (i.e., we know if we have strong leaders, they make

good choices, which eventually lead to good financial performance) or innovativeness (i.e., cool products lead to more customer enthusiasm, which eventually leads to financial performance). Such intangibles are extremely difficult to measure and to track.

Possible Solutions

Now that you have an understanding of the common challenges and mistakes that organizations face when working with nonfinancial controls, including the omission of them entirely, you have the foundation for understanding how to use them effectively. For organizations that manage well with nonfinancial controls, the benefits definitely outweigh the costs. Since we outlined five possible areas for mistakes, let's work briefly through five possible solution areas.

Use Nonfinancial Controls

As we mentioned earlier in this section, the delayed and historic nature of financial controls makes it risky to rely on them alone. Step back and reflect on the organization's strategy, then pick one or several nonfinancial controls such as customer or employee satisfaction as a starting point. It is critical that you start with a conceptual model using simple boxes and arrows in terms of what nonfinancial control leads to another, and so on.

The following figure shows a working model of these relationships for a retail store that sells unique products. This leads us to our second solution.
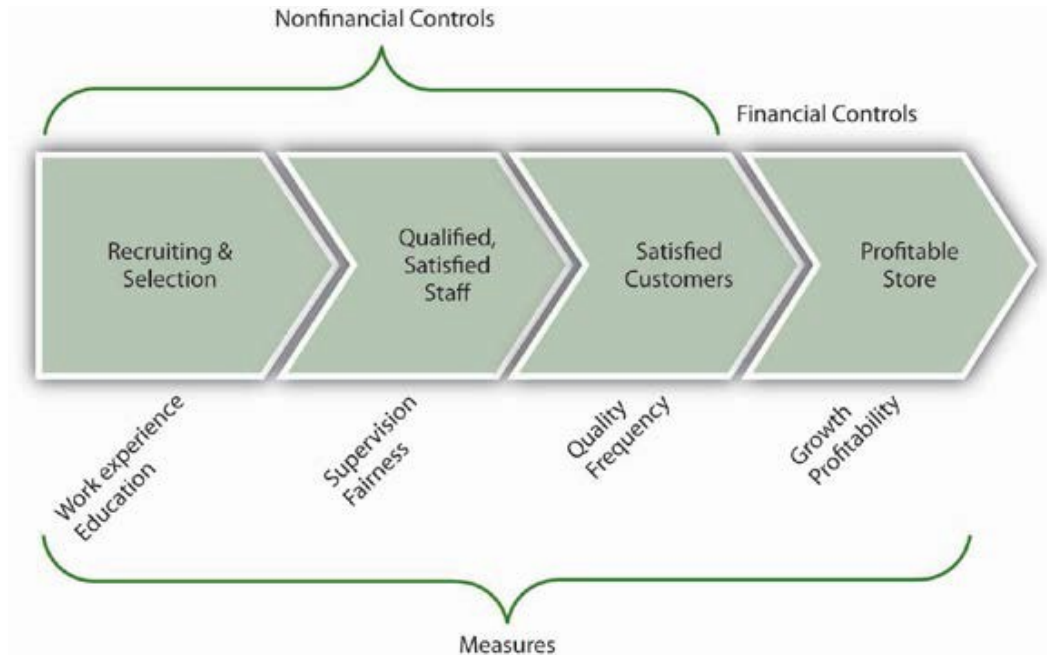
Figure 112 Sample Mix of Nonfinancial and Financial Controls

Tie the Controls to the Strategy

Be sure to confirm that whichever nonfinancial controls are in place, they reflect and reinforce the unique strategy of the organization. This also should remind you that, if the strategy ever changes, you should go back and revalidate the links between the nonfinancial controls and the strategy. For instance, in our retail store example, part of the strategy is to sell unique products, which means that employees with particular work experience and education may provide better customer service than inexperienced employees. If the store changed its strategy to sell more generic products, however, it might not need such experienced or educated employees anymore.

Validate the Links Between Nonfinancial and Financial Controls

As you recall, organizations often use more than one nonfinancial control with the assumption that they cascade down to bottom-line financial performance. Of course, when there are fewer nonfinancial controls, it is easier to detect relationships among them. Regardless, with information collected about the controls, management must seek to use simple statistical techniques to verify the

causal relationship between one control and another, and eventually financial performance. For instance, if nonfinancial controls were functioning as assumed, you might find that when employees are more satisfied, customers are more satisfied, and when both are more satisfied, more higher-profit-margin products are sold. If such relationships can't be proved, then managers must revisit their choice of nonfinancial controls.

Set Appropriate Performance Targets

Extending the prior example, you would want to be sure that you set employee and customer satisfaction control targets appropriately. Assuming that you validated the linkages, while it might be nice to reach 100% satisfaction levels across employees and customers, it might not be cost-effective. This does not mean that you abandon the use of such controls; instead you must determine whether 90% satisfaction (or some other number) still leads to greater product sales.

Validate the Performance Measures

Finally, make sure that what you ultimately measure fits well with the control objectives. For instance, with our retail store example, would you measure work experience by the number of years that an applicant has worked? Or would you want experience with a particular type of product or service? Similarly, with regard to education, you would want to make a choice as to measuring grade- point average, standardized test score, or major. As a reminder, this type of validation is relevant to nonfinancial and financial measures alike. For instance, if our hypothetical store's sales are growing, but profitability is going down, then we would want to figure out why these financial controls aren't painting the same picture. For example, it might be that we've hired more salespeople, who help us sell more, but that we are not selling enough to cover the additional costs of the added people's salaries. These examples should help you see the point about using the right measure.

Lean Control

LEARNING OBJECTIVES

1. Know what is meant by lean controls, and why the subject can be confusing.

2. Understand the application of lean.

3. Know the five core principals of lean.

Lean control, or simply lean, has become an immensely popular business control and improvement methodology in recent years. Lean control is a highly refined example of nonfinancial controls in action. Lean is a system of nonfinancial controls used to improve product and service quality and decrease waste. Research suggests that up to 70% of manufacturing firms are using some form of lean in their business operations. PrintPlanet launches lean manufacturing forum. (2008, August 11).[542] Lean was initially focused on improving manufacturing operations but is now used to improve product development, order processing, and a variety of other nonmanufacturing processes (sometimes called "lean in the office").

What Is Meant by Lean Control?

Lean's popularity has both resulted from, and been driven by, an explosion in the volume of lean-related educational resources. Amazon offers almost 1,800 books and other materials about lean, and Yahoo! hosts over 90 online discussion groups relating to lean. Colleges and universities, industry trade associations, and private consulting firms routinely offer courses, seminars, and conferences to explain what lean is and how to use it.

Lean control is a number of things. According to James Womack, "it is a process for measuring and reducing inventory and streamlining production. It is a means for changing the way a company measures plant performance. It is a knowledge-based system. It takes years of hard work, preparation and support from upper management. Lean is so named because it purports to use much less of certain resources (space, inventory, workers, etc.) than is used by normal mass-production systems to produce comparable output." The term came into widespread use with the 1990 publication of the book *The Machine That Changed the World*, by James P. Womack, Daniel T. Jones, and Daniel Roos.[543]

This abundance of education resources on the topic of lean is actually a mixed blessing for managers who are just now becoming interested in lean. On the one hand, today's managers don't have to search far to find lean materials or programs. But the wealth of lean resources can also be a source of confusion for two main reasons. First, there is no universal definition of lean and little agreement about what the truly core principles of lean are. For instance, quality programs such as Six-Sigma, or even lean Six Sigma, are other titles competing for the "lean" intellectual space. Therefore, lean experts often approach the subject from differing perspectives and describe lean in different ways. To make matters worse, lean is a topic that produces a significant amount of zealotry. So, many experts strongly argue that their particular "brand" of lean is the one right way to implement and use lean. In these circumstances, it's no wonder that managers become confused about where and how to begin.

Lean Applications

Lean will always be associated with Toyota Motor Corporation because most lean tools and techniques were developed by Toyota in Japan beginning in the 1950s. After World War II, Toyota's leaders were determined to make the company a full-range car and truck manufacturing enterprise, but they faced several serious challenges. The Japanese motor vehicle market was small and yet demanded a fairly wide range of vehicle types. This meant that Toyota needed to find a way to earn a profit while manufacturing a variety of vehicles in low volumes. In addition, capital was extremely scarce, which made it impossible for Toyota to make large purchases of the latest production equipment. To succeed, or even survive, Toyota needed a way to build vehicles that would require fewer resources. To achieve this goal, Toyota's leaders, principally Eiji Toyoda and Taiichi Ohno, began to create and implement the production techniques and tools that came to be known as lean.[544]

To gain the most benefits from lean, managers must be able to determine what specific lean tools and techniques will be effective in their particular business. And to make that determination, they must clearly understand what lean is designed to accomplish (its primary objectives) and what core principles lean is based on. With this understanding, managers can decide which lean tools will work well in their business, which lean tools will need to be modified or adapted to work well, and which tools are simply not appropriate.

What, then, are the major objectives and core principles of lean? Despite the arguments and debates that often surround attempts to define and describe lean, it is clear that the ultimate objective of lean is the avoidance of muda, or wasteful activity, in all business operations. As shown in the following figure, muda comprises *seven deadly wastes*. In the lean world, waste means any activity or condition that consumes resources but creates no value for customers. Therefore, waste includes the production of defective products that must be remade or fixed, the production of more products than the market will buy, excessive work-in-process inventories, overprocessing (processing steps that aren't really needed or that add no value), unnecessary movement of people or products, and

unnecessary waiting by employees.

Elimination of Waste Is the Soul of Lean

Muda is a Japanese term for activity that is wasteful and doesn't add value. It is also a key concept in lean control. Waste reduction is an effective way to increase profitability. Here are the seven deadly wastes, along with their definitions:

1. **Defects** prevent the customer from accepting the product produced. The effort to create these defects is wasted. New waste management processes must be added in an effort to reclaim some value for the otherwise scrap product.
2. **Overproduction** is the production or acquisition of items before they are actually required. It is the most dangerous waste of the company because it hides the production problems. Overproduction must be stored, managed, and protected.
3. **Transportation** is a cost with no added value. In addition, each time a product is moved it stands the risk of being damaged, lost, and delayed. Transportation does not transform the product in any way that the consumer is willing to pay for.
4. **Waiting** refers to both the time spent by the workers waiting for resources to arrive, the queue for their products to empty as well as the capital sunk in goods and services that are not yet delivered to the customer. It is often the case that there are processes to manage this waiting.
5. **Inventory** in the form of raw materials, work-in-progress, or finished goods represents a capital outlay that has not yet produced an income either by the producer or for the consumer. Any of these three items not being actively processed to add value is waste.
6. **Motion** refers to the actions performed by the producer, worker, or equipment. Motion has significance to damage, wear, and safety. It also includes the fixed assets and expenses incurred in the production process.
7. **Overprocessing** is defined as using a more expensive or otherwise valuable resource than is needed for the task or adding features that are

designed for but unneeded by the customer. There is a particular problem with this item regarding people. People may need to perform tasks that they are overqualified for to maintain their competency. This training cost can be used to offset the waste associated with overprocessing.

The Five Core Principles of Lean

Lean methodologies are lean because they enable a business to do more with less. A lean organization uses less human effort, less equipment, less facilities space, less time, and less capital—while always coming closer to meeting customers' exact needs. Therefore, lean is not just another cost-cutting program of the kind we often see in business organizations. Lean is much more about the conservation of valuable resources than it is about cost cutting.

In their best-selling book, *Lean Thinking*, James Womack and Daniel Jones identified five core principles of lean[545]. Let's examine them one by one.

Define Value from the Customer's Perspective

The first core principle in the Womack/Jones lean framework is that value must be defined and specified from the customer's perspective. While this seems simple enough, it requires much more than high-sounding, generic statements. To be meaningful, value must be defined in terms of specific products. This means that managers must understand how each specific product meets the needs of specific customers at a specific price and at a specific time.

Describe the Value Stream for Each Product or Service

The second core principle of lean is to describe the value stream for each product or service (or, in some cases, for groups or families of similar products). The value stream is the set of activities that the business is performing to bring a finished product to a customer. It includes both direct manufacturing activities and indirect activities such as order processing, purchasing, and materials management. Developing a detailed description or map of each value stream usually reveals huge amounts of waste. It enables managers to identify which value stream activities add value to the product, which activities add no value but cannot be

immediately eliminated for various reasons, and which activities create no value and can be immediately eliminated (or at least reduced substantially).

Create Flow in Each Value Stream

The third essential principle of lean is embodied in the word flow. When a value stream has been completely described as unnecessary, non-value-adding activities have been eliminated, the basic idea of flow is to arrange the remaining activities sequentially, so that products will move smoothly and continuously from one activity to the next. However, flow means more than ease of movement. Flow is the lean principle that directly challenges the traditional "batch-and-queue" model of manufacturing, where people and equipment are organized and located by function, and products (and component parts) are manufactured in large batches. Lean organizations strive to improve flow by reducing the size of production batches, and in the process, they increase flexibility and lower costs.

Produce at the Pace (Pull) of Actual Customer Demand

Producing at the pace or pull of actual customer demand is the fourth key principle of lean. One of the greatest benefits of moving from traditional batch- and-queue manufacturing to continuous flow production is that lead times fall dramatically. Reduced lead times and increased flexibility mean that lean organizations can respond to actual customer demand rather than attempt to predict in advance what that level of demand will be. This allows lean organizations to substantially lower both finished goods and work-in-process inventories.

Strive to Continuously Improve All Business Operations

The fifth core principle of lean is continuous improvement, expressed in Japanese by the word kaizen. Companies that implement lean adopt the mind-set that it is always possible to improve any business activity, and they regularly conduct kaizen events throughout their organizations to improve specific processes or operations. Today, Toyota is recognized as one of the most "lean" business enterprises in the world. Even more daunting, and humbling, is the fact that Toyota is still striving to improve.

KEY TAKEAWAYS

- Lean control, or simply lean, is the system of nonfinancial controls used to improve product and service quality and decrease waste.

- While popularized through the dramatic successes of Toyota in auto manufacturing, lean processes are used to improve quality and decrease waste in most service and manufacturing industries around the world.

- In this section, you saw examples of the seven deadly wastes (muda) and the five core principles of lean which culminate in continuous improvement, or kaizen.

Chapter 14 Review Questions

Multiple Choice:
1. The Malcolm Baldrige Award is an example of _____.
    a. better ability to manage uncertainty and complexity
    b. improved cost and productivity control
    c. improved quality control
    d. opportunity recognition

2. , _____ controls contribute to successful execution of the current strategy.
    a. operating
    b. outcome
    c. proactivity
    d. strategic

3. _____ controls involve the direct evaluation of managerial and employee decision making.
    a. behavioral
    b. financial
    c. outcome
    d. proactivity

4. Qualitative measures of customer satisfaction is an example of _____ controls.
    a. concurrent
    b. feedback
    c. feedforward
    d. proactivity

5. The second core principle of lean control is _____.
    a. create flow in each value stream
    b. define value from the customers perspective
    c. describe the value stream for each product or service
    d. strive to continuously improve all business operations

Chapter 15 Strategic Human Resource Management

Reading this chapter will help you do the following:

1. Understand the scope and changing role of strategic human resource management (SHRM) in principles of management.
2. Visualize the battlefield in the war for talent.
3. Engage in effective selection and placement strategies.
4. Understand the roles of pay structure and pay for performance.
5. Design a high-performance work system.
6. Use the human resources Balanced Scorecard to gauge and proactively manage human capital, including your own.

You have probably heard the saying, *people make the place.* In today's fast-changing environment, organizations need employees who understand the organization's strategy and are empowered to execute it. To achieve this, organizations need to follow a strategic human resource management (SHRM) approach. SHRM ensures that people are a key factor in a firm's competitive advantage. Thus, as summarized in the following figure, SHRM is an integral part of the control portion of the planning-organizing-leading-controlling (P-O-L-C) framework.

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2. Decision Making	2. Strategic Human Resources
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivation	

Figure 113 The P-O-L-C Framework

Organizations need human resources (HR) to be a partner in identifying, attracting, and hiring the type of employees who will be most qualified to help the company achieve its goals. SHRM requires attracting the right employees to the company, identifying metrics to help employees stay on target to meet the company's goals, and rewarding them appropriately for their efforts so that they stay engaged and motivated. Having all these components in place—designing a high-performance work system—improves organizational performance and unleashes employee talent.

The Changing Role of Strategic Human Resource Management in Principles of Management

LEARNING OBJECTIVES

1. Understand how HR is becoming a strategic partner.
2. Understand the importance of an organization's human capital.
3. List the key elements of SHRM.
4. Explain the importance of focusing on outcomes.

The role of HR is changing. Previously considered a support function, HR is now becoming a strategic partner in helping a company achieve its goals. A strategic approach to HR means going beyond the administrative tasks like payroll processing. Instead, managers need to think more broadly and deeply about how employees will contribute to the company's success.

HR as a Strategic Partner

Strategic human resource management (SHRM) is not just a function of the HR department—all managers and executives need to be involved because the role of people is so vital to a company's competitive advantage[546]. In addition, organizations that value their employees are more profitable than those that do

not.[547] Research shows that successful organizations have several things in common, such as providing employment security, engaging in selective hiring, using self- managed teams, being decentralized, paying well, training employees, reducing status differences, and sharing information[548]. When organizations enable, develop, and motivate human capital, they improve accounting profits as well as shareholder value in the process. The most successful organizations manage HR as a strategic asset and measure HR performance in terms of its strategic impact.[549]

Here are some questions that HR should be prepared to answer in this new world[550].

- *Competence*: To what extent does our company have the required knowledge, skills, and abilities to implement its strategy?
- *Consequence*: To what extent does our company have the right measures, rewards, and incentives in place to align people's efforts with the company strategy?
- *Governance*: To what extent does our company have the right structures, communications systems and policies to create a high-performing organization?
- *Learning and Leadership*: To what extent can our company respond to uncertainty and learn and adapt to change quickly?

The Importance of Human Capital

Employees provide an organization's human capital. Your human capital is the set of skills that you have acquired on the job, through training and experience, and which increase your value in the marketplace. The Society of Human Resource Management's *Research Quarterly* defined an organization's human capital as follows: "A company's human capital asset is the collective sum of the attributes, life experience, knowledge, inventiveness, energy and enthusiasm that its people choose to invest in their work[551]."

Focus on Outcomes

Unfortunately, many HR managers are more effective in the technical or operational aspects of HR than they are in the strategic, even though the strategic aspects have a much larger effect on the company's success[552]. In the past, HR professionals focused on compliance to rules, such as those set by the federal government, and they tracked simple metrics like the number of employees hired or the number of hours of training delivered. The new principles of management, however, require a focus on outcomes and results, not just numbers and compliance. Just as lawyers count how many cases they've won— not just how many words they used—so, too must HR professionals track how employees are using the skills they've learned to attain goals, not just how many hours they've spent in training.[553]

John Murabito, executive vice president and head of HR and Services at Cigna, says that HR executives need to understand the company's goals and strategy and then provide employees with the skills needed. Too often, HR execs get wrapped up in their own initiatives without understanding how their role contributes to the business. That is dangerous, because when it comes to the HR department, "anything that is administrative or transactional is going to get outsourced," Murabito says[554]. Indeed, the number of HR outsourcing contracts over $25 million has been increasing, with 2,708 active contracts under way in 2007[555]. For example, the Bank of America outsourced its HR administration to Arinso. Arinso will provide timekeeping, payroll processing, and payroll services for 10,000 Bank of America employees outside the U.S[556]. To avoid outsourcing, HR needs to stay relevant and accept accountability for its business results. In short, the people strategy needs to be fully aligned with the company's business strategy and keep the focus on outcomes.

Key Elements of HR

Beyond the basic need for compliance with HR rules and regulations, the four key elements of HR are summarized in the following figure. In high-performing companies, each element of the HR system is designed to reflect best practice and

to maximize employee performance. The different parts of the HR system are strongly aligned with company goals.

Selection and Placement

When hiring, acquaint prospective new hires with the nature of the jobs they will be expected to fulfill. This includes explaining the technical competencies needed (for example, collecting statistical data) and defining behavioral competencies. Behavioral competencies may have a customer focus, such as the ability to show empathy and support of customers' feelings and points of view, or a work management

Figure 114 Key HR Elements

focus, such as the ability to complete tasks efficiently or to know when to seek guidance.

In addition, make the organization's culture clear by discussing the values that underpin the organization—describe your organization's "heroes." For example, are the heroes of your company the people who go the extra mile to get customers to smile? Are they the people who toil through the night to develop new code? Are they the ones who can network and reach a company president to make the sale? By sharing such stories of company heroes with your potential hires, you'll help reinforce what makes your company unique. This, in turn, will help the job candidates determine whether they'll fit into your organization's culture.

Job Design

Design jobs that involve doing a whole piece of work and are challenging but doable. Job design refers to the process of putting together various elements to

form a job, bearing in mind organizational and individual worker requirements, as well as considerations of health, safety, and ergonomics. Train employees to have the knowledge and skills to perform all parts of their job and give them the authority and accountability to do so[557]. One company that does training right is Motorola. As a global company, Motorola operates in many countries, including China. Operating in China presents particular challenges in terms of finding and hiring skilled employees. In a recent survey conducted by the American Chamber of Commerce in Shanghai, 37% of U.S.-owned enterprises operating in China said that recruiting skilled employees was their biggest operational problem[558]. Indeed, more companies cited HR as a problem than cited regulatory concerns, bureaucracy, or infringement on intellectual property rights. The reason is that Chinese universities do not turn out candidates with the skills that multinational companies need. As a result, Motorola has created its own training and development programs to bridge the gap. For example, Motorola's China Accelerated Management Program is designed for local managers. Another program, Motorola's Management Foundation program, helps train managers in areas such as communication and problem solving. Finally, Motorola offers a high-tech MBA program in partnership with Arizona State University and Tsinghua University so that top employees can earn an MBA in-house[559]. Such programs are tailor-made to the low-skilled but highly motivated Chinese employees.

Compensation and Rewards

Evaluate and pay people based on their performance, not simply for showing up on the job. Offer rewards for skill development and organizational performance, emphasizing teamwork, collaboration, and responsibility for performance. Help employees identify new skills to develop so that they can advance and achieve higher pay and rewards. Compensation systems that include incentives, gainsharing, profit-sharing, and skill-based pay reward employees who learn new skills and put those skills to work for the organization. Employees who are trained in a broad range of skills and problem solving are more likely to grow on the job and feel more satisfaction. Their training enables them to make more valuable

contributions to the company, which, in turn, gains them higher rewards and greater commitment to the company[560]. The company likewise benefits from employees' increased flexibility, productivity, and commitment.

When employees have access to information and the authority to act on that information, they're more involved in their jobs and more likely to make the right decision and take the necessary actions to further the organization's goals. Similarly, rewards need to be linked to performance, so that employees are naturally inclined to pursue outcomes that will gain them rewards and further the organization's success at the same time.

Diversity Management

Another key to successful SHRM in today's business environment is embracing diversity. In past decades, "diversity" meant avoiding discrimination against women and minorities in hiring. Today, diversity goes far beyond this limited definition; diversity management involves actively appreciating and using the differing perspectives and ideas that individuals bring to the workplace. Diversity is an invaluable contributor to innovation and problem-solving success. As James Surowiecki shows in *The Wisdom of Crowds*, the more diverse the group in terms of expertise, gender, age, and background, the more ability the group has to avoid the problems of groupthink[561]. Diversity helps company teams to come up with more creative and effective solutions. Teams whose members have complementary skills are often more successful because members can see one another's blind spots. Members will be more inclined to make different kinds of mistakes, which means that they'll be able to catch and correct those mistakes.

Effective Selection and Placement Strategies

LEARNING OBJECTIVES

1. Explain why a good job description benefits the employer and the applicant.
2. Describe how company culture can be used in selecting new employees.
3. Discuss the advantages and disadvantages of personnel testing.
4. Describe some considerations in international staffing and placement

Selecting the right employees and placing them in the right positions within the company is a key HR function and is vital to a company's success. Companies should devote as much care and attention to this "soft" issue as they do to financial planning because errors will have financial impact and adverse effects on a company's strategy.

Job-Description Best Practices

Walt has a problem. He works as a manager in a medium-sized company and

considers himself fortunate that the organizational chart allows him a full-time administrative assistant (AA). However, in the two years Walt has been in his job, five people have held this AA job. The most recent AA, who resigned after four weeks, told Walt that she had not known what the job would involve. "I don't do numbers, I'm not an accountant," she said. "If you want someone to add up figures and do calculations all day, you should say so in the job description. Besides, I didn't realize how long and stressful my commute would be—the traffic between here and my house is murder!"

Taken aback, Walt contacted the company's HR department to clarify the job description for the AA position. What he learned was that the description made available to applicants was, indeed, inadequate in a number of ways. Chances are that frequent turnover in this AA position is draining Walt's company of resources that could be used for much more constructive purposes.

An accurate and complete job description is a powerful SHRM tool that costs little to produce and can save a bundle in reduced turnover. While the realistic description may discourage some applicants (for example, those who lack an affinity for calculations might not bother to apply for Walt's AA position), those who follow through with the application process are much more likely to be satisfied with the job once hired. In addition to summarizing what the worker will actually be doing all day, here are some additional suggestions for writing an effective job description:

- List the job requirements in bullet form so that job seekers can scan the posting quickly.
- Use common industry terms, which speak to knowledgeable job seekers.
- Avoid organization-specific terms and acronyms, which would confuse job seekers.
- Use meaningful job titles (not the internal job codes of the organization).
- Use key words taken from the list of common search terms (to maximize the chance that a job posting appears on a job seeker's search).

- Include information about the organization, such as a short summary and links to more detailed information.
- Highlight special intangibles and unusual benefits of the job and workplace (e.g., flextime, travel, etc.).
- Specify the job's location (and nearest large city) and provide links to local community pages (to entice job seekers with quality-of-life information).

Tailoring Recruitment to Match Company Culture

Managers who hire well don't just hire for skills or academic background; they ask about the potential employee's philosophy on life or how the candidate likes to spend free time. These questions help the manager assess whether the cultural fit is right. A company in which all work is done in teams needs team players, not just "A" students. Ask questions like, "Do you have a personal mission statement? If not, what would it be if you wrote one today?[562]" At Google, for example, job candidates are asked questions like, "If you could change the world using Google's resources, what would you build?[563]" Google wants employees who will think and act on a grand scale, employees who will take on the challenges of their jobs, whatever their job may be. Take Josef DeSimone, who is Google's executive chef. DeSimone, who's worked everywhere from family-style restaurants to Michelin-caliber ones, was amazed to learn that Google had 17 cafes for its employees. "Nobody changes the menu daily on this scale," he says. "It's unheard of." When he was hired, DeSimone realized, "Wow, you hire a guy who's an expert in food and let him run with it! You don't get in his way or micromanage[564]." Google applies this approach to all positions and lets employees run with the challenge.

Traditionally, companies have built a competitive advantage by focusing on what they have—structural advantages such as economies of scale, a well-established brand, or dominance in certain market segments. Companies such as Southwest Airlines, by contrast, see its people as their advantage: "Our fares can be matched; our airplanes and routes can be copied. But we pride ourselves on our customer service," said Sherry Phelps, director of corporate employment. That's why Southwest looks for candidates who generate enthusiasm and leans toward

extraverted personalities[565]. Southwest hires for attitude, flight attendants have been known to sing the safety instructions, and pilots tell jokes over the public address system.

Southwest Airlines makes clear right from the start the kind of people it wants to hire. For example, recruitment ads showed Southwest founder Herb Kelleher dressed as Elvis and read: "Work in a Place Where Elvis Has Been Spotted…The qualifications? It helps to be outgoing. Maybe even a bit off-center. And be prepared to stay awhile. After all, we have the lowest employee turnover rate in the industry." People may scoff or question why Southwest indulges in such showy activities or wonder how an airline can treat its jobs so lightly. Phelps answers, "We do take our work seriously. It's ourselves that we don't." People who don't have a humane, can-do attitude are fired. Southwest has a probationary period during which it determines the compatibility of new hires with the culture. People may be excellent performers, but if they don't match the culture, they are let go. As Southwest's founder Kelleher once said, "People will write me and complain, 'Hey, I got terminated or put on probation for purely subjective reasons.' And I'll say, 'Right! Those are the important reasons.'"

In many states, employees are covered under what is known as the at-will employment doctrine. At-will employment is a doctrine of American law that defines an employment relationship in which either party can break the relationship with no liability, provided there was no express contract for a definite term governing the employment relationship and that the employer does not belong to a collective bargaining unit (i.e., a union)[566]. However, there are legal restrictions on how purely subjective the reasons for firing can be. For instance, if the organization has written hiring and firing procedures and does not follow them in selective cases, then those cases might give rise to claims of wrongful termination. Similarly, in situations where termination is clearly systematic, for example, based on age, race, religion, and so on, wrongful termination can be claimed.

Tools and Methods: Interviewing and Testing

To make good selection and placement decisions, you need information about the job candidate. Two time-tested methods to get that information are testing and interviewing.

A detailed interview begins by asking the candidate to describe his work history and then getting as much background on his most recent position (or the position most similar the open position). Ask about the candidate's responsibilities and major accomplishments. Then, ask in-depth questions about specific job situations. Called situational interviews, these types of interviews can focus on past experience or future situations. For example, experienced-based questions are "Tell me about a major initiative you developed and the steps you used to get it adopted." Or, "Describe a problem you had with someone and how you handled it." In contrast, future-oriented situation interview questions ask candidates to describe how they would handle a future hypothetical situation, such as: "Suppose you came up with a faster way to do a task, but your team was reluctant to make the change. What would you do in that situation?"

In addition to what is asked, it is also important that interviewers understand what they should not ask, largely because certain questions lead to answers that may be used to discriminate. There are five particularly sensitive areas. First, the only times you can ask about age are when it is a requirement of a job duty or you need to determine whether a work permit is required. Second, it is rarely appropriate or legal to ask questions regarding race, color, national origin, or gender. Third, although candidates may volunteer religious or sexually- orientated information in an interview, you still need to be careful not to discriminate. Ask questions that are relevant to work experience or qualifications. Fourth, firms cannot discriminate for health or disabilities; you may not ask about smoking, health-related questions, or disabilities in an interview. Finally, you may not ask questions about marital status, children, personal life, pregnancy, or arrest record. These kinds of questions could be tempting to ask if you are interviewing for a position requiring travel; however, you can only explain the travel requirements and confirm that the requirements are acceptable.

In addition to interviews, many employers use testing to select and place job applicants. Any tests given to candidates must be job related and follow guidelines set forth by the Equal Opportunity Employment Commission to be legal. For the tests to be effective, they should be developed by reputable psychologists and administered by professionally qualified personnel who have had training in occupations testing in an industrial setting. The rationale behind testing is to give the employer more information before making the selection and placement decision—information vital to assessing how well a candidate is suited to a particular job. Most pre-employment assessment tests measure thinking styles, behavioral traits, and occupational interests. The results are available almost immediately after a candidate completes the roughly hour-long questionnaire. Thinking styles tests can tell the potential employer how fast someone can learn new things or how well he or she can verbally communicate. Behavioral traits assessments measure energy level, assertiveness, sociability, manageability, and attitude. For example, a high sociability score would be a desirable trait for salespeople.[567]

International Staffing and Placement

In our increasingly global economy, managers need to decide between using expatriates or hiring locals when staffing international locations. On the surface, this seems a simple choice between the firm-specific expertise of the expatriate and the cultural knowledge of the local hire. In reality, companies often fail to consider the high probability and high cost of expatriates failing to adapt and perform in their international assignments.

For example, cultural issues can easily create misunderstandings between expatriate managers and employees, suppliers, customers, and local government officials. At an estimated cost of $200,000 per failed expatriate, international assignment decisions are often made too lightly in many companies. The challenge is to overcome the natural tendency to hire a well-known, corporate insider over an unknown local at the international site. Here are some indications to use to determine whether an expatriate or a local hire would be best[568].

Managers may want to choose an expatriate when:

- Company-specific technology or knowledge is important.
- Confidentiality in the staff position is an issue.
- There is a need for speed (assigning an expatriate is usually faster than hiring a local).
- Work rules regarding local workers are restrictive.
- The corporate strategy is focused on global integration

Managers may want to staff the position with a local hire when:

- The need to interact with local customers, suppliers, employees, or officials is paramount.
- The corporate strategy is focused on multidomestic/market-oriented operations.
- Cost is an issue (expatriates often bring high relocation/travel costs).
- Immigration rules regarding foreign workers are restrictive.
- There are large cultural distances between the host country and candidate expatriates.

KEY TAKEAWAYS

- Effective selection and placement means finding and hiring the right employees for your organization and then putting them into the jobs for which they are best suited.

- Providing an accurate and complete job description is a key step in the selection process.

- An important determination is whether the candidate's personality is a good fit for the company's culture. Interviewing is a common selection method.

- Situational interviews ask candidates to describe how they handled specific situations in the past (experience-based situational interviews) and how they would handle hypothetical questions in the future (future-oriented situational interviews.)

- Other selection tools include cognitive tests, personality inventories, and behavioral traits assessments.

- Specific personalities may be best suited for positions that require sales, teamwork, or entrepreneurship, respectively.

- In our increasingly global economy, managers need to decide between using expatriates or hiring locals when staffing international locations.

The Roles of Pay Structure and Pay for Performance

LEARNING OBJECTIVES

1. Explain the factors to be considered when setting pay levels.
2. Understand the value of pay for performance plans.
3. Discuss the challenges of individual versus team-based pay.

Pay can be thought of in terms of the "total reward" that includes an individual's base salary, variable pay, share ownership, and other benefits. A bonus, for

example, is a form of variable play. A bonus is a one-time cash payment, often awarded for exceptional performance. Providing employees with an annual statement of all these benefits they receive can help them understand the full value of what they are getting.[569]

Pay System Elements

As summarized in the following table, pay can take the form of direct or indirect compensation. Nonmonetary pay can include any benefit an employee receives from an employer or job that does not involve tangible value. This includes career and social rewards, such as job security, flexible hours and opportunity for growth, praise and recognition, task enjoyment, and friendships. Direct pay is an employee's base wage. It can be an annual salary, hourly wage, or any performance-based pay that an employee receives, such as profit-sharing bonuses.

Table 12 Elements of a Pay System

Element	Description
Nonmonetary pay	Includes benefits that do not involve tangible value.
Direct pay	Employee's base wage
Indirect pay	Everything from legally required programs to health insurance, retirement, housing, etc.
Basic pay	Cash wage paid to the employee. Because paying a wage is a standard practice, the competitive advantage can only come by paying a higher amount.
Incentive pay	A bonus paid when specified performance objectives are met. May inspire employees to set and achieve a higher performance level and is an excellent motivator to accomplish goals.
Stock options	A right to buy a piece of the business that may be given to an employee to reward excellent service. An employee who owns a share of the business is far more likely to go the extra mile for the operation.
Bonuses	A gift given occasionally to reward exceptional performance or for special occasions. Bonuses can show an employer appreciates his or her employees and ensures that good performance or special events are rewarded.

Indirect compensation is far more varied, including everything from legally required public protection programs such as social security to health insurance, retirement programs, paid leave, child care, or housing. Some indirect compensation elements are required by law: social security, unemployment, and disability payments. Other indirect elements are up to the employer and can offer excellent ways to provide benefits to the employees and the employer as well. For example, a working parent may take a lower-paying job with flexible hours that will allow him or her to be home when the children get home from school. A recent graduate may be looking for stable work and an affordable place to live. Both of these individuals have different needs and, therefore, would appreciate different compensation elements.

Setting Pay Levels

When setting pay levels for positions, managers should make sure that the pay level is fair relative to what other employees in the position are being paid. Part of the pay level is determined by the pay level at other companies. If your company pays substantially less than others, it's going to be the last choice of employment unless it offers something overwhelmingly positive to offset the low pay, such as flexible hours or a fun, congenial work atmosphere. Besides these external factors, companies conduct a job evaluation to determine the internal value of the job—the more vital the job to the company's success, the higher the pay level. Jobs are often ranked alphabetically—"A" positions are those on which the company's value depends, "B" positions are somewhat less important in that they don't deliver as much upside to the company, and "C" positions are those of least importance—in some cases, these are outsourced.

The most vital jobs to one company's success may not be the same as in other companies. For example, information technology companies may put top priority on their software developers and programmers, whereas for retailers such as Nordstrom, the "A" positions are those frontline employees who provide personalized service. For an airline, pilots would be a "B" job because, although they need to be well trained, investing further in their training is unlikely to increase

the airline's profits. "C" positions for a retailer might include back office bill processing, while an information technology company might classify customer service as a "C" job.

When setting reward systems, it's important to pay for what the company actually hopes to achieve. Steve Kerr, vice president of corporate management at General Electric, talks about the common mistakes that companies make with their reward systems, such as saying they value teamwork but only rewarding individual effort. Similarly, companies say they want innovative thinking or risk taking, but they reward people who "make the numbers."[570]

If companies truly want to achieve what they hope for, they need payment systems aligned with their goals. For example, if retention of star employees is important to your company, reward managers who retain top talent. At PepsiCo, for instance, one-third of a manager's bonus is tied directly to how well the manager did at developing and retaining employees. Tying compensation to retention makes managers accountable.[571]

Pay for Performance

As its name implies, pay for performance ties pay directly to an individual's performance in meeting specific business goals or objectives. Managers (often together with the employees themselves) design performance targets to which the employee will be held accountable. The targets have accompanying metrics that enable employees and managers to track performance. The metrics can be financial indicators, or they can be indirect indicators such as customer satisfaction or speed of development. Pay-for-performance schemes often combine a fixed base salary with a variable pay component (such as bonuses or stock options) that vary with the individual's performance.

Innovative Employee Recognition Programs

In addition to regular pay structures and systems, companies often create special programs that reward exceptional employee performance. For example, the financial software company Intuit, Inc., instituted a program called Spotlight. The

purpose of Spotlight is to "spotlight performance, innovation and service dedication.[572]" Unlike regular salaries or year-end bonuses, Spotlight awards can be given on the spot for specific behavior that meets the reward criteria, such as filing a patent, inventing a new product, or meeting a milestone for years of service. Rewards can be cash awards of $500 to $3,000 and can be made by managers without high- level approval. In addition to cash and noncash awards, two Intuit awards feature a trip with $500 in spending money.[573]

Pay Structures for Groups and Teams

So far, we have discussed pay in terms of individual compensation, but many employers also use compensation systems that reward all of the organization's employees as a group or various groups and teams within the organization. Let's examine some of these less traditional pay structures.

Gainsharing

Sometimes called profit sharing, gainsharing is a form of pay for performance. In gainsharing, the organization shares the financial gains with employees. Employees receive a portion of the profit achieved from their efforts. How much they receive is determined by their performance against the plan. Here's how gainsharing works: First, the organization must measure the historical (baseline) performance. Then, if employees help improve the organization's performance on those measures, they share in the financial rewards achieved. This sharing is typically determined by a formula.

The effectiveness of a gainsharing plan depends on employees seeing a relationship between what they do and how well the organization performs. The larger the size of the organization, the harder it is for employees to see the effect of their work. Therefore, gainsharing plans are more effective in companies with fewer than 1,000 people[574]. Gainsharing success also requires the company to have good performance metrics in place so that employees can track their process. The gainsharing plan can only be successful if employees believe and see that if they perform better, they will be paid more. The pay should be given as

soon as possible after the performance so that the tie between the two is established.

When designing systems to measure performance, realize that performance appraisals need to focus on quantifiable measures. Designing these measures with input from the employees helps make the measures clear and understandable to employees and increases their buy-in that the measures are reasonable.

Team-Based Pay

Many managers seek to build teams, but face the question of how to motivate all the members to achieve the team's goals. As a result, team-based pay is becoming increasingly accepted. In 1992, only 3% of companies had team-based pay. By 1996, 9% did, and another 39% were planning such systems[575]. With increasing acceptance and adoption come different choices and options of how to structure team-based pay. One way to structure the pay is to first identify the type of team you have—parallel, work, project, or partnership—and then choose the pay option that is most appropriate to that team type. Let's look at each team type in turn and the pay structures best suited for each.

Parallel teams are teams that exist alongside (parallel to) an individual's daily job. For example, a person may be working in the accounting department but also be asked to join a team on productivity. Parallel teams are often inter- departmental, meet part time, and are formed to deal with a specific issue. The reward for performance on this team would typically be a merit increase or a recognition award (cash or noncash) for performance on the team.

A *project team* is likewise a temporary team, but it meets full time for the life of the project. For example, a team may be formed to develop a new project and then disband when the new product is completed. The pay schemes appropriate for this type of team include profit sharing, recognition rewards, and stock options. Team members evaluate each other's performance.

A *partnership team* is formed around a joint venture or strategic alliance. Here,

profit sharing in the venture is the most common pay structure. Finally, with the *work team*, all individuals work together daily to accomplish their jobs. Here, skill-based pay and gainsharing are the payment schemes of choice, with team members evaluating one another's performance.

Pay Systems That Reward Both Team and Individual Performance

There are two main theories of how to reward employees. Nancy KatzKatz, N. R. (1998). Promoting a healthy balance between individual achievement and team success: The impact of hybrid reward systems. Presented at the *Do Rewards Make a Difference?* session at the Academy of Management Conference, August 9–12 the speakers characterized the theories as two opposing camps. The first camp advocates rewarding individual performance, through plans such as commissions-sales schemes and merit-based-pay. The claim is that this will increase employees' energy, drive, risk taking, and task identification. The disadvantages of rewarding individual performance are that employees will cooperate less, that high performers may be resented by others in the corporation, and that low performers may try to undermine top performers.

The second camp believes that organizations should reward team performance, without regard for individual accomplishment. This reward system is thought to bring the advantages of increased helping and cooperation, sharing of information and resources, and mutual-respect among employees. The disadvantages of team-based reward schemes are that they create a lack of drive, that low performers are "free riders," and that high performers may withdraw or become tough cops.

Katz sought to identify reward schemes that achieve the best of both worlds. These hybrid pay systems would reward individual and team performance, promoting excellence at both levels. Katz suggested two possible hybrid reward systems. The first system features a base rate of pay for individual performance that increases when the group reaches a target level of performance. In this

reward system, individuals have a clear pay-for-performance incentive, and their rate of pay increases when the group as a whole does well. In the second hybrid, the pay-for-performance rate also increases when a target is reached. Under this reward system, however, every team member must reach a target level of performance before the higher pay rate kicks in. In contrast with the first hybrid, this reward system clearly incentivizes the better performers to aid poorer performers. Only when the poorest performer reaches the target does the higher pay rate kick in.

KEY TAKEAWAYS

- Compensation plans reward employees for contributing to company goals. Pay levels should reflect the value of each type of job to the company's overall success. For some companies, technical jobs are the most vital, whereas for others frontline customer service positions determine the success of the company against its competitors.

- Pay-for-performance plans tie an individual's pay directly to his or her ability to meet performance targets. These plans can reward individual performance or team performance or a combination of the two.

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