Eleventh Edition

Essentials of MANAGEMENT

An International, Innovation and Leadership Perspective

Harold Kootnz | Heinz Weihrich | Mark V. Cannice

Eleventh Edition

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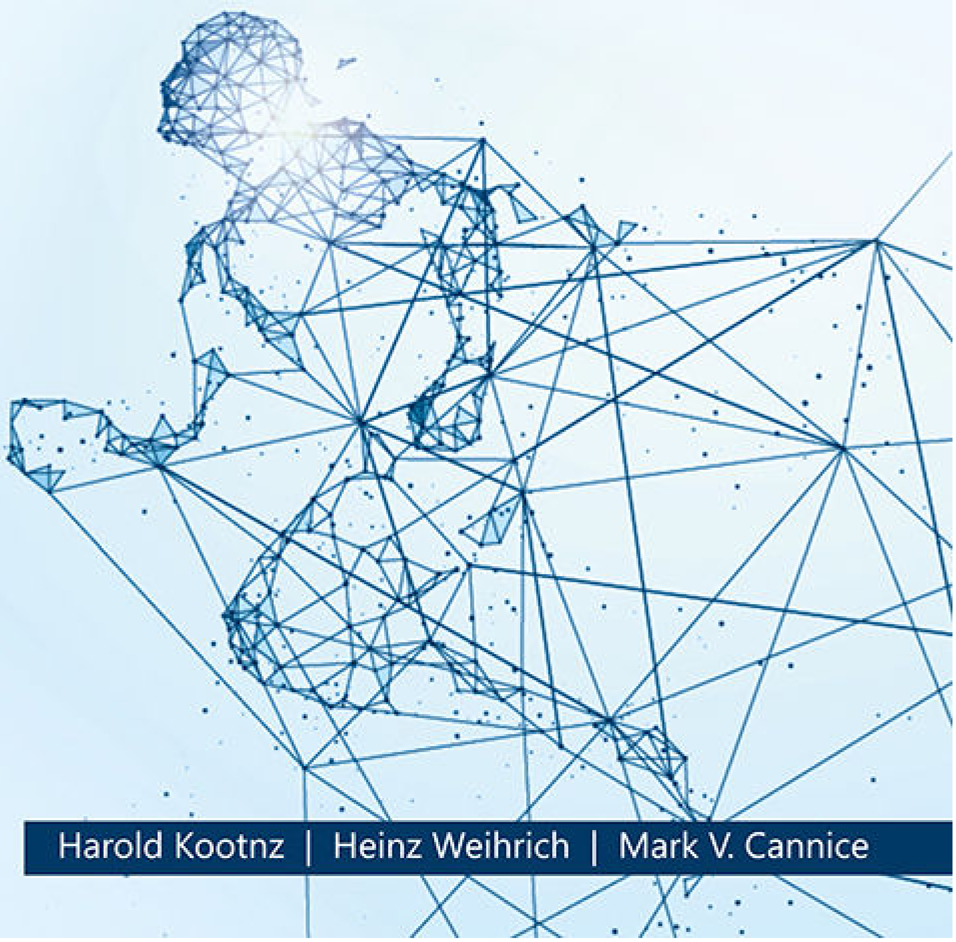
An International, Innovation and Leadership Perspective



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MANAGEMENT

An International, Innovation, and Leadership Perspective

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An International, Innovation, and Leadership Perspective

Eleventh Edition

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About the Authors

Harold Koontz, Ph.D. was active as a business and government executive, university professor, company board chairperson and director, management consultant, lecturer to the top management of organizations worldwide, and an author. From 1950, he was Professor of Management and from 1962 Mead Johnson Professor of Management at UCLA; from 1978 to 1982, he was World Chancellor at the International Academy of Management. He was the author or coauthor of 19 books and 90 journal articles, including this book, which was originally called *Principles of Management*. His *Board of Directors and Effective Management* was given the Academy of Management Book Award in 1968.

After his doctorate at Yale, Prof. Koontz served as Assistant to the Trustees of the New Haven Railroad, Chief of the Traffic Branch of the War Production Board, Assistant to the Vice-President of the Association of American Railroads, Assistant to the President of Trans World Airlines, and Director of Sales for Convair. He acted as management consultant for, among others, Hughes Tool Company, Hughes Aircraft Company, Purex Corporation, KLM Royal Dutch Airlines, Metropolitan Life Insurance Company, Occidental Petroleum Corporation, and General Telephone Company. Professor Koontz's honors included election as a Fellow of the American Academy of Management and the International Academy of Management and a term of service as President of the former. He received the Mead Johnson Award in 1962 and the Society for Advancement of Management Taylor Key Award in 1974 and is listed in *Who's Who in America, Who's Who in Finance and Industry*, and *Who's Who in the World*. Dr. Koontz passed away in 1984.

Heinz Weihrich, Ph.D. is Professor of Global Management and Behavioral Sciences Emeritus with the University of San Francisco. He received his doctorate from the University of California in Los Angeles (UCLA) and an honorary doctorate from San Martin de Porres University in Peru. He was a visiting scholar at the University of California in Berkeley, Harvard Business School, and the KAIST Business School in Seoul. His field of work is management, international management, and behavioral science. Dr. Weihrich has taught at Arizona State University, at UCLA, and in countries such as Austria, China (Beijing and Shanghai), Egypt, France (INSEAD), Germany, Hong Kong, Jamaica, Kuwait, Malaysia, Mexico, Singapore, Switzerland, Taiwan, and Thailand. He was also a visiting professor at the Graduate School of Business (GBSA) in Zurich, Switzerland, at the China Europe International Business School (CEIBS) in Shanghai, at Chulalongkorn University in Bangkok, and at Peking University in Beijing.

Dr. Weihrich has published more than 90 books, including various editions and translations, and is the author of the classic *Management: A Global Perspective* (which has been translated into more than 16 languages in its various editions) and *Essentials of Management* (also in several language editions), both formerly co-authored by the late Harold Koontz and the late Cyril O'Donnell. *Management* has been a worldwide bestseller for many years including in China. Its Spanish-language edition has topped the bestseller list for more than 12 years. Another book, *Management Excellence: Productivity through MBO*, discusses a goal-driven, success-oriented management system. It has been translated into six European and Asian languages. Over 140 of Weihrich's articles have been published in the United States and overseas in several languages in journals such as *Human Resource Planning, Journal of Systems Management, Management International Review, Long Range Planning, European Business Review* (in which one of his articles won the most outstanding paper award in 1999), and the *Academy of Management Executive*. Dr. Weihrich is the author of the TOWS Matrix, a widely used approach for strategy formulation and the analysis of the competitive advantage of nations. His current research interests are in improving the global competitiveness of enterprises and nations, strategic management, managerial excellence, and global leadership.

In addition to pursuing his academic interests, Dr. Weihrich was active in management consulting as well as executive and organizational development in the United States, Europe, Africa, and Asia. His consulting, business, and teaching experiences include working with companies such as Eastman Kodak, Volkswagen, General Motors (UK), Hughes Aircraft, ABB (Switzerland), Mercedes-Benz, China Resources Co., Guangdong Enterprises (China), and the Institute Pembangunan Keusahawanan (Malaysia). He has given many speeches on management topics in the United States, Europe, Asia, Mexico, and Peru. He has been elected as a Fellow of the International Academy of Management, the highest honor conferred by the international management movement. He is also listed in *International Businessmen's Who's Who, Men of Achievement, Dictionary of International Biography, International Leaders in Achievement, Who's Who in California, Who's Who in American Education, Marquis' Who's Who in the West, Who's Who in America, and Who's Who in the World*. More biographical information is published on his website at *www.usfca.edu/fac-staff/weihrichh*.

Mark V. Cannice, Ph.D. is Department Chair and Professor of Entrepreneurship and Innovation with the University of San Francisco School of Management, and the Founder and of the University of San Francisco Entrepreneurship Program (recognized among the nation's leading entrepreneurship programs, with Forbes ranking USF a top 20 entrepreneurial research university in 2015 and U.S. News ranking the USF undergraduate and graduate entrepreneurship programs among the top 20 in the nation in 2017 and 2018). He has been recognized by the USF School of Management for outstanding research, teaching, service, and student advocacy and support. Dr. Cannice publishes a quarterly report on Silicon Valley Venture Capitalist confidence, which is carried globally on Bloomberg Professional Services in 170 countries (Bloomberg ticker symbol: SVVCCI) and has been referenced in the *Economist, Wall Street Journal, New York Times, Business Week*, CNBC, National Public Radio, and many other media. He published a similar quarterly report for China Venture Capitalist confidence (Bloomberg ticker symbol: CVCCI). Professor Cannice has published in leading academic and professional journals (e.g., *Management International Review, Journal of High Technology Management Research, Venture Capital: An International Journal of Entrepreneurial Finance, Thunderbird International Business Review, Journal of Small Business and Entrepreneurship, Journal of Private Equity, Entrepreneur Magazine*, etc.), and is the co-author of *Management: A Global and Entrepreneurial Perspective*, 14th edition

(2016) (published and distributed by McGraw-Hill in four languages). Dr. Cannice has advised governments and universities from Asia, Europe, and Latin America on entrepreneurial education, and has been a Visiting Professor with the University of Paris 2 (Pantheon-Assas), and a Visiting Associate Professor with the Hong Kong University of Science and Technology and Peking University. He founded his own company, Pacific Business Development, Inc., an international trading firm. He also served nine years as a Naval Flight Officer in the U.S. Navy – most notably as a Patrol Plane Mission Commander, leading a 12-member aircrew in military operations throughout the Pacific, and was promoted to Commander in the U.S. Naval Reserves. He holds a Ph.D. and M.S. from Indiana University Kelley School of Business, an MBA from USF, and a B.S. from the United States Naval Academy (*Annapolis*).

In memory of Harold Koontz
A pioneer in management education
who
"untangled the management theory jungle"
by organizing managerial knowledge
according to the management functions,
the framework used in
today's popular textbooks.
To my wife Ursula
Heinz Weihrich
To my family, colleagues, and students
Mark Cannice

Preface

The eleventh edition of this book prepares aspiring managers for a challenging and rewarding career. As the title indicates, important perspectives have been added. Innovation is critical for the success not only of companies, but also for countries, and this aspect will be addressed throughout the book. Similarly, leadership is critical for the success or the organization.

Each chapter in this eleventh edition has been updated with recent managerial applications, new management insights, and professional activities. For example, Interviews with Silicon Valley Executives, Entrepreneurs, and Investors have been included to bring current professional expertise to students. Importantly, this edition also focuses on the professional development and network of its readers, providing exercises that encourage students to use professional networking sites like LinkedIn to enhance their professional profile and network.

Earlier editions of this book have been published in many languages. The global perspective will appeal to those realizing that the old barriers are disappearing and new alliances among companies and peoples are being formed. Beyond the discussion of managerial issues in America and Asia, attention is given to topics in the European Union and Latin America. The purpose of this book is to make readers better leaders, innovators, and global professionals by acquiring an international perspective and applying essential management principles, concepts, and theories in their work.

Who Will Benefit from This Book?

The book will benefit not only students in colleges and universities, aspiring managers, and professionals, but also non-managers who want to understand managing. This book is for people in all kinds of organizations, not just business firms; it is relevant to non-business organizations as well, such as government, healthcare, educational institutions, and not-for-profit enterprises.

The managerial functions are essentially the same for first-line supervisors, middle managers, and top executives. To be sure, there are considerable variations in environment, scope of authority, and types of problems in various positions. Yet, all managers undertake the same basic functions to obtain results by establishing an environment for effective and efficient performance of individuals working together in groups.

Most importantly, this new edition emphasizes the importance of and facilitates the establishing of a professional profile and network (www.LinkedIn.com) that will benefit all students and faculty that use this text. In this increasingly globally networked environment those that work to establish a strong and informed professional reputation will create new opportunities for themselves and others. This text strives to support each reader in that endeavor.

Organization of the Book

As in earlier editions, managerial knowledge is classified according to the functions of planning, organizing, staffing, leading, and controlling. A systems model, introduced in Chapter 1 and shown at the beginning of Parts 2–6, integrates these functions into a system; it also links the enterprise with its environment. The proposed open systems view is even more important now than in the past, as the external environment, through the internationalization, has become even more challenging. In addition to the systems model, the mind map at the beginning of Parts 1–6 lists all book chapters which facilitates the understanding the relationships of the major management topics.

Part 1 covers the basis of management theory and practice. It also introduces the systems model that serves as the framework of this book. To provide a comprehensive perspective, Part 1 includes chapters on management and its relations to the external environment, social responsibility, and ethics. Moreover, to emphasize the book's orientation, Part 1 also includes a chapter on international management. Parts 2–6 discuss the managerial functions of planning, organizing, staffing, leading, and controlling. These parts conclude with a listing of relevant principles, or guides, for each managerial function, highlighting key aspects of each function.

Revision Work in This Edition

Essentials of Management: An International, Innovation, and Leadership Perspective, 11th edition integrates theory and practice. While maintaining the international perspective, many examples and cases illustrate the application of concepts and theories to the **Indian environment.**

While the whole book has been updated, the following examples illustrate new features in this edition:

- Interviews with Leading Silicon Valley Executives, Entrepreneurs, and Investors
- Professional Application Exercises that help each reader develop and grow a professional profile and network with LinkedIn
- Developing a White Paper
- Writing a Business Plan
- Creating a Business Case
- The Most Innovative Companies in the World
- Asia's top 50 firms
- Silicon Valley Perspectives and Cases
- The Global Innovation Index
- Updated Management Theoretical Perspectives
- Google Case
- Innovation Indexes
- Innovation Theories – Disruptive versus Incremental
- Entrepreneurial Management – The Silicon Valley Way
- Innovation Education in the United States and Europe
- Innovation in Higher Education: edX and Coursera Online Programs

- Can the Khan Academy Change Education and Motivate Students?
- And, importantly, the removal of outdated information helping ensure time spent reading, is as productive as possible

Learning Assistance

The integrative systems model, on the inside of the book cover, gives an overview of the book content. The model is discussed in detail in Chapter 1. Parts 2–6 are introduced with this model and a part overview highlights the chapters that are discussed in the respective part.

The chapters conclude with a summary, key ideas and concepts for review, and discussion questions. The purpose of the sections “Exercises/Action Steps” and “Internet Re-search” is to encourage and involve readers in this learning process. There is also one case for each chapter. At the end of chapters on managerial functions (Parts 2–6), managerial principles, or guides, highlight some key concepts related to planning, organizing, staffing, leading, and controlling.

Development of a LinkedIn profile by readers as prescribed in chapter exercises will also enhance the professional development and network in a way not previously possible.

Acknowledgments

The late Dr. Harold Koontz is sorely missed. At a memorial session at the Academy of Management meeting, Professor Ronald Greenwood stated that Howdy Koontz was many years ahead of his time. Indeed, his inspiration and guidance popularized the classification of management knowledge according to the managerial functions, a framework now used around the world. He will never be forgotten for his contributions to management.

We are indebted to so many persons contributing to various editions that a complete acknowledgment would be encyclopedic. Many scholars, writers, and managers are acknowledged through references in the text. Many managers with whom we have served in business, government, education, and other enterprises have contributed by word and example. Thousands of managers in all kinds of enterprises in various countries have honored us over the years by allowing us to test our ideas in executive training classes and lectures. Especially helpful were the many experiences of executives around the world who have generously shared their international experiences. For example, the managers in MBA and executive programs in Australia, Austria, China, Egypt, France, Germany, Kuwait, Malaysia, Singapore, Switzerland, and Thailand provided opportunities to learn about their culture and their managerial practices. To the executives of these and many other companies with whom we have been privileged to work as directors, consultants, or teachers, we are grateful for the opportunity to gain the clinical practice of managing.

Many colleagues, scholars, managers, and students have contributed through their ideas and suggestions to this book. The late Professor Keith Davis at Arizona State University was particularly generous with his time. One of our mentors at UCLA, Professor George S. Steiner, has done much to stimulate my interest in the development of the TOWS Matrix for strategy formulation. The late Professors Peter F. Drucker and George S. Odiorne, to whom book *Management Excellence — Productivity Through MBO* has been dedicated, have sharpened our thinking about goal-driven management systems and managerial productivity. In earlier editions, special appreciation was expressed to those who contributed in many important ways. While they are not named here, their contributions have been important for this edition as well.

We would like to thank the many adopters and contributors to this and previous editions of the book. We would also like to acknowledge the contributions of our fellow academicians who have given their valuable feedback and suggestions on the previous editions as well as in the shaping of this edition. Some of them are:

Shikha Kapoor, Amity University, Noida

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Similarly, the editorial and managerial staff at McGraw-Hill Education (India) Private Ltd. including Shreya Soni, Pandita Piyaray, and Atul Gupta among others have contributed significantly to this edition.
Finally, we want to thank our families, especially Ursula Weihrich, wife of Heinz Weihrich, to whom this book has been dedicated, for their continuing support.

Heinz Weihrich
Mark V. Cannice

Publisher's Note

Do you have a feature request? A suggestion? We are always open to new ideas (the best ideas come from you!). You may send your comments to ***info.india@mhededucation.com*** (kindly mention the title and author name in the subject line).

Piracy-related issue may also be reported.

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Leadership Perspective	Lack of Upward Communication Can Be Disastrous
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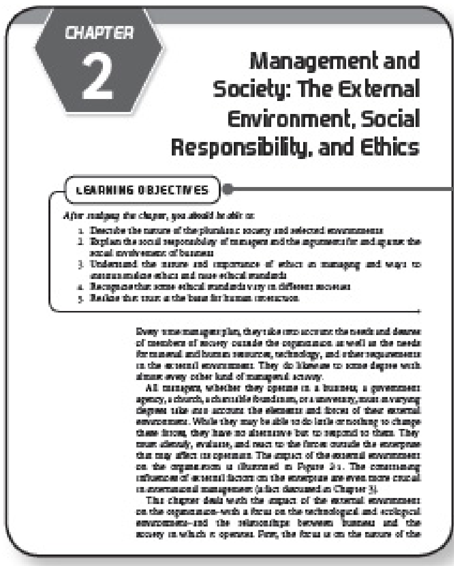
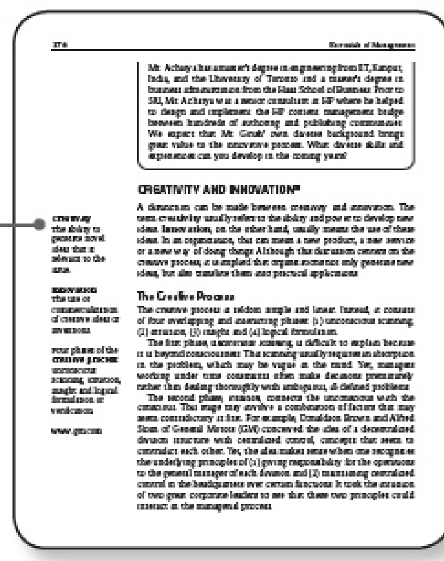
Innovation Perspective	GE's Contribution to India's Outsourcing Boom
International Perspective	Quality Circles in Japan
International Perspective	The Interconnected Global Supply Chain Management

Visual Walkthrough



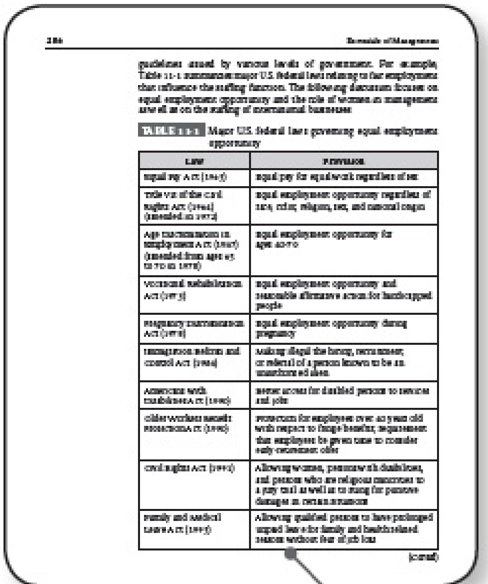
Learning Objectives

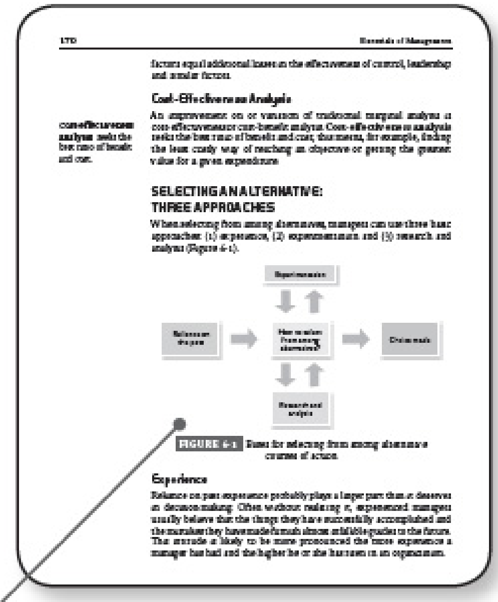
Each chapter begins with learning objectives which outline what each chapter aims at achieving and what the reader should know on its completion.



Margin Notes

These notes in the text margins give an overview of the key points in the chapter. They also aid in reviewing key concepts. Also included in the margins are websites for readers to refer to for further information related to the organization or the topic under discussion.



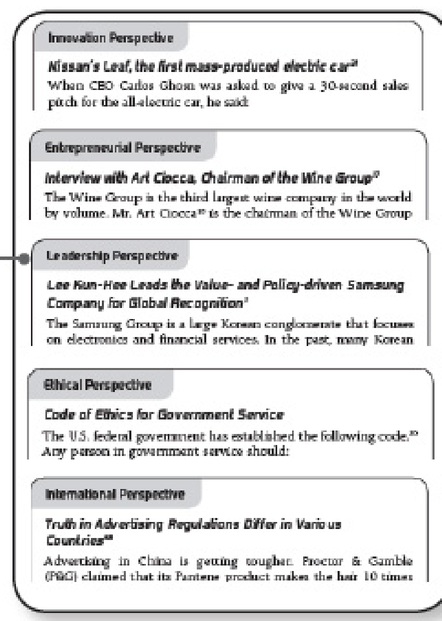


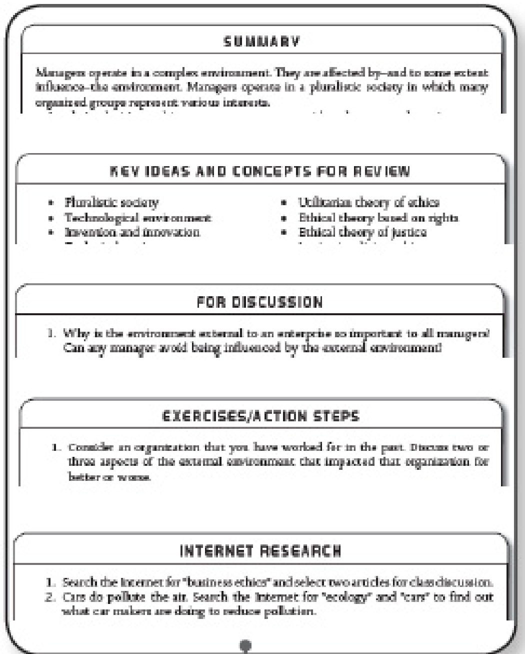
Tables and Figures

The tables give details pertaining to the concepts discussed in the chapter, while the figures illustrate these concepts.

Boxed Items

Boxes containing international, innovation, leadership, ethical and management perspectives illustrate the concepts, principles, and theories presented in each chapter.





SUMMARY

Managers operate in a complex environment. They are affected by–and to some extent influence–the environment. Managers operate in a pluralistic society in which many organized groups represent various interests.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Pluralistic society
- Technological environment
- Invention and innovation
- Utilitarian theory of ethics
- Ethical theory based on rights
- Ethical theory of justice

FOR DISCUSSION

1. Why is the environment external to an enterprise so important to all managers? Can any manager avoid being influenced by the external environment?

EXERCISES/ACTION STEPS

1. Consider an organization that you have worked for in the past. Discuss two or three aspects of the external environment that impacted that organization for better or worse.

INTERNET RESEARCH

1. Search the Internet for "business ethics" and select two articles for class discussion.
2. Cars do pollute the air. Search the Internet for "ecology" and "cars" to find out what car makers are doing to reduce pollution.

Chapter-end Features

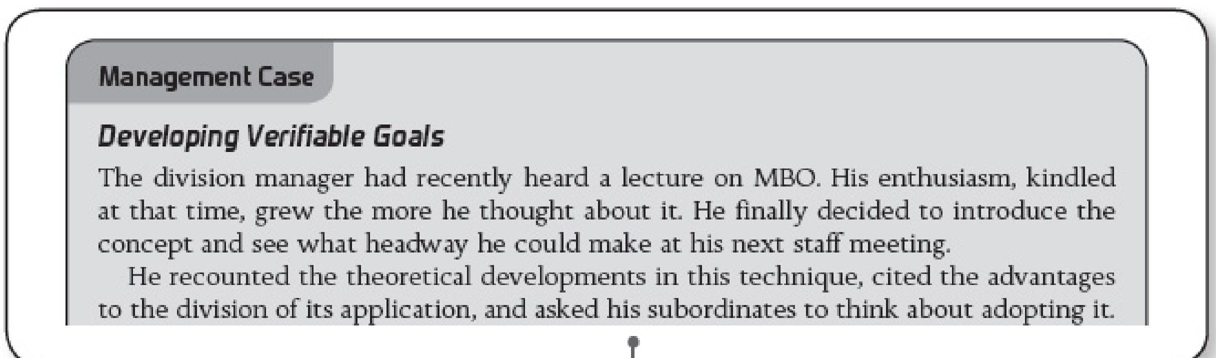
Summary: Each chapter concludes with a summary which gives a gist of the chapter. This will be helpful for the reader to have a quick review of the main points of the chapter.

Key Ideas and Concepts: A list of important terms and concepts has been given at the end of each chapter. This will help readers recapitulate what all has been dealt with in the different topics covered.

For Discussion: These are questions which encourage readers to think about and discuss the topics taught in the chapter.

Exercises/Action Steps: These exercises encourage readers to relate the ideas and concepts given in the chapter to the real world.

Internet Research: This part lists out addresses of some websites which will be useful to readers for further knowledge - both broader and in-depth.



Management Case

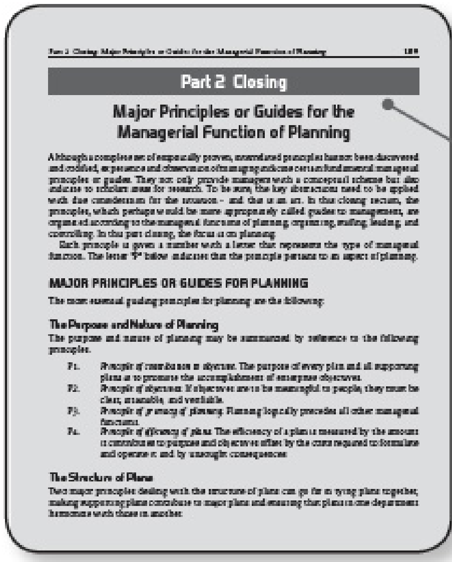
Developing Verifiable Goals

The division manager had recently heard a lecture on MBO. His enthusiasm, kindled at that time, grew the more he thought about it. He finally decided to introduce the concept and see what headway he could make at his next staff meeting.

He recounted the theoretical developments in this technique, cited the advantages to the division of its application, and asked his subordinates to think about adopting it.

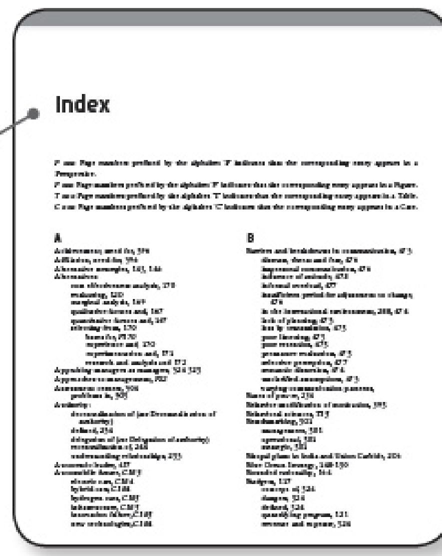
Case

Each chapter ends with a case with questions. This case can either be a Leadership case, Inter- national Case or Innovation Case. It exemplifies the concepts discussed in the chapter, and its questions help in initiating discussion on the topic.



Part Closing

Managerial knowledge classified according to the functions of planning, organizing, staffing, leading and controlling are respectively emphasized upon in each of the part's closing. Each of the closings highlight the purpose, reason, structure and process of the emphasized function.

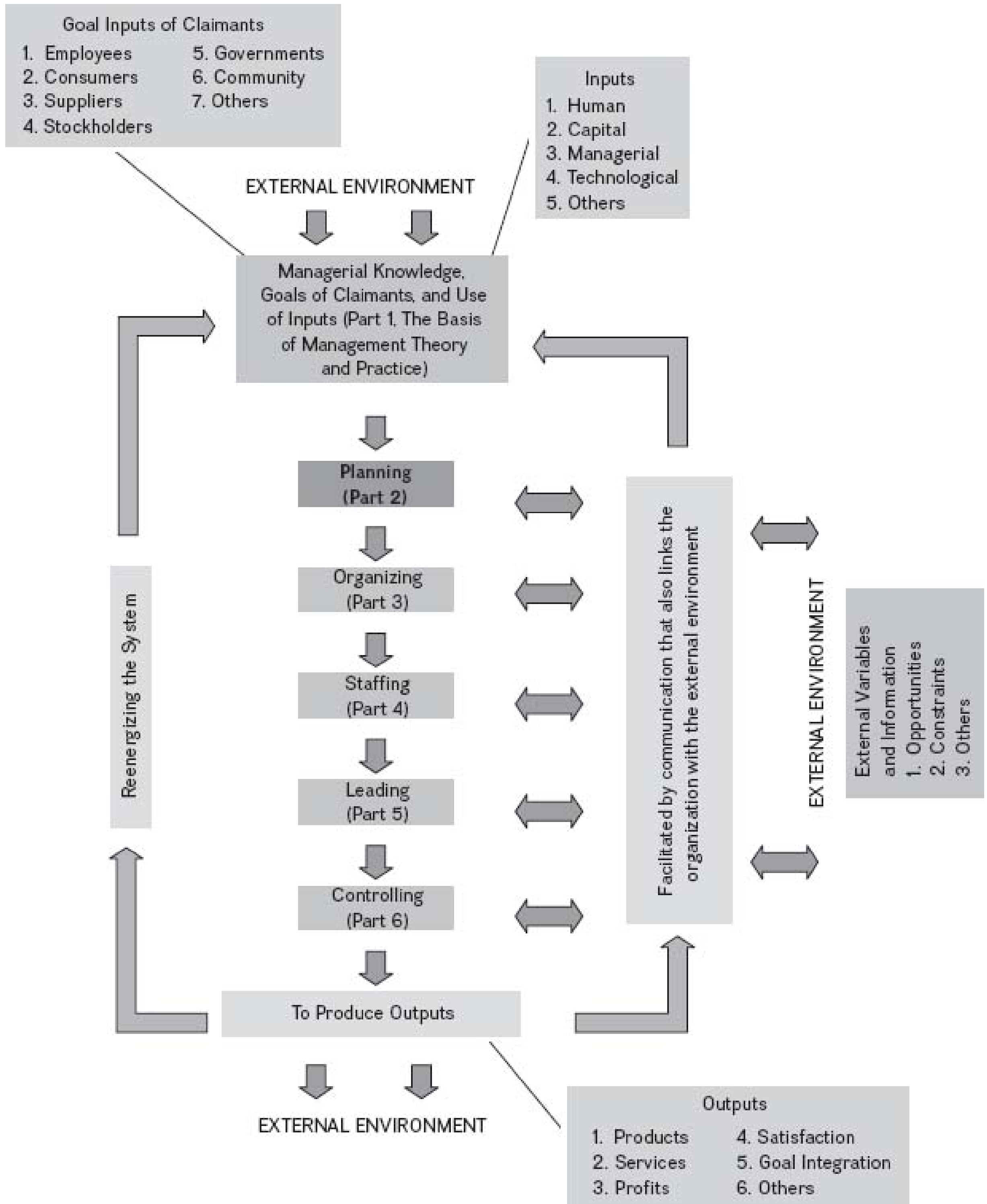


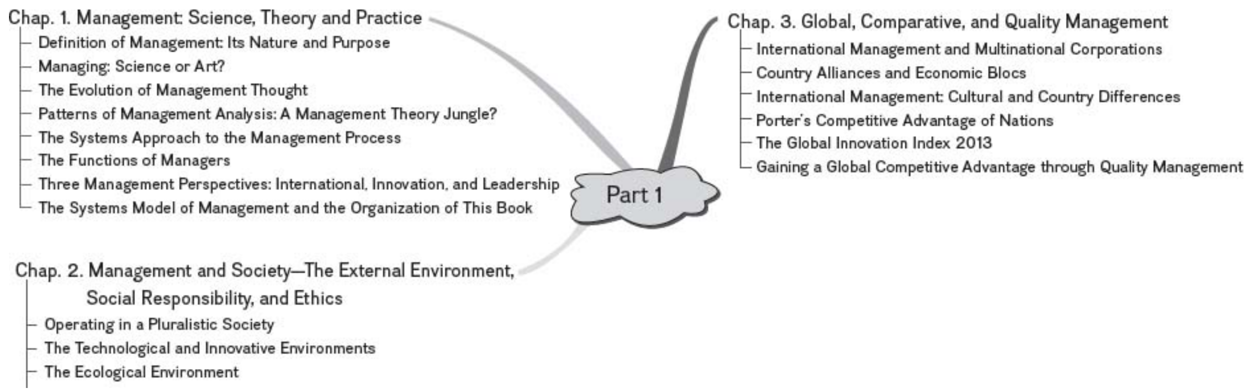
Subject Index

A subject index will aid the readers in locating the entries in the text accurately and easily.

PART 1

The Basis of Global Management Theory and Practice


Goal Inputs of Claimants
1. Employees
2. Consumers
3. Suppliers
4. Stockholders
5. Governments
6. Community
7. Others
Inputs
1. Human
2. Capital
3. Managerial
4. Technological
5. Others
EXTERNAL ENVIRONMENT
Managerial Knowledge, Goals of Claimants, and Use of Inputs (Part 1, The Basis of Management Theory and Practice)
Planning (Part 2)
Organizing (Part 3)
Staffing (Part 4)
Leading (Part 5)
Controlling (Part 6)
To Produce Outputs
Reenergizing the System
Facilitated by communication that also links the organization with the external environment
EXTERNAL ENVIRONMENT
External Variables and Information
1. Opportunities
2. Constraints
3. Others
EXTERNAL ENVIRONMENT
Outputs
1. Products
2. Services
3. Profits
4. Satisfaction
5. Goal Integration
6. Others


Chap. 1. Management: Science, Theory and Practice
Definition of Management: Its Nature and Purpose
Managing: Science or Art?
The Evolution of Management Thought
Patterns of Management Analysis: A Management Theory Jungle?
The Systems Approach to the Management Process
The Functions of Managers
Three Management Perspectives: International, Innovation, and Leadership
The Systems Model of Management and the Organization of This Book
Part 1
Chap. 2. Management and Society—The External Environment, Social Responsibility, and Ethics
Operating in a Pluralistic Society
The Technological and Innovative Environments
The Ecological Environment
Chap. 3. Global, Comparative, and Quality Management
International Management and Multinational Corporations
Country Alliances and Economic Blocs
International Management: Cultural and Country Differences
Porter's Competitive Advantage of Nations
The Global Innovation Index 2013
Gaining a Global Competitive Advantage through Quality Management

CHAPTER 1

Management: Science, Theory, and Practice

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Explain the nature and purpose of management
2. Describe the evolution of management and some foundational and recent contributions to management thought
3. Identify current developments in technology and globalization and their impact on the practice of management
4. Describe the various approaches to management, their contributions as well as their limitations
5. Explain the managerial functions of planning, organizing, staffing, leading, and controlling
6. Identify a managerial opportunity or challenge in your current or target organization as a potential case study to apply the concepts in this course
7. Build initial LinkedIn Profile: www.LinkedIn.com

One of the most important human activities is managing. Ever since people began forming groups to accomplish aims they could not achieve as individuals, managing has been essential to ensure the coordination of individual efforts. As society has come to rely increasingly on group effort and as many organized groups have become large, the task of managers has been rising in importance. The purpose of this book is to promote excellence among all persons in organizations, especially among managers, aspiring managers, and other professionals.*

DEFINITION OF MANAGEMENT: ITS NATURE AND PURPOSE

Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims. This basic definition needs to be expanded:

Management The process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims.

- As managers, people carry out the managerial functions of planning, organizing, staffing, leading, and controlling.
- Management applies to any kind of organization.
- It applies to managers at all organizational levels.
- The aim of all managers is the same: to create a surplus.
- Managing is concerned with productivity, which implies effectiveness and efficiency.

Here are some managers you are familiar with: Tim Cook of Apple, Satya Nadella of Microsoft, and Larry Ellison of Oracle. The President of the United States and the Prime Minister of India are also managers. Beyond top-level managers, middle-level managers and first-line supervisors also make important contributions to the goal of their organizations.

www.apple.com
www.microsoft.com
www.oracle.com

We define an **organization** as a group of people working together to create a surplus. In business organizations, this surplus is profit. In nonprofit organizations, such as charitable organizations, it may be satisfaction of needs. Universities also create a surplus through generation and dissemination of knowledge as well as providing service to the community or society.

The Functions of Management

Many scholars and managers have found that the analysis of management is facilitated by a useful and clear organization of knowledge. In studying management, therefore, it is helpful to break it down into five managerial functions—planning, organizing, staffing, leading, and controlling—around which the knowledge that underlies those functions can be organized. Thus, the concepts, principles, theories, and techniques of management are grouped into these five functions in this book.

Five managerial functions around which managerial knowledge is organized in this book: planning, organizing, staffing, leading, and controlling.

This framework has been used and tested for many years. Although there are different ways of organizing managerial knowledge, most textbook and authors today have adopted this or a similar framework even after experimenting at times with alternative ways of structuring knowledge.

External elements that affect operation include economic, technological, social, ecological, political, and ethical factors.

Although the emphasis in this book is on managers' tasks that pertain to designing an internal environment for performance within an organization, it must never be overlooked that managers must operate in the external environment of an enterprise as well. Clearly, managers cannot perform their tasks well unless they have an understanding of and are responsive to the many elements of the external environment— economic, technological, social, ecological, political, and ethical factors— that affect their areas of operation. Moreover, many organizations now operate in different countries. Therefore, this book takes an international perspective of managing.

Management as an Essential for Any Organization

Managers are charged with the responsibility of taking actions that will enable individuals to make their best contributions to group objectives. Management thus applies to small and large organizations, to profit and not for profit enterprises, to manufacturing as well as service industries. The term **enterprise** refers to a business, government agency, hospital, university, and any other type of organization, since almost everything said in this book refers to business as well as nonbusiness organizations. Effective management is the concern of the corporation president, the hospital administrator, the government first-line supervisor, the Boy Scout leader, the church bishop, the baseball manager, and the university president.

Enterprise A business, government agency, hospital, university, or any other type of organization.

Managerial Functions at Different Organizational Levels

In this book, no basic distinction is made between managers, executives, administrators, and supervisors. To be sure, a given situation may differ considerably between various levels in an organization or between various types of enterprises. Similarly, the scope of authority held may vary and the types of problems dealt with may be considerably different. Furthermore, the person in a managerial role may be directing people in the sales, engineering, or finance department. But the fact remains that as managers all obtain results by establishing an environment for effective group endeavor.

All managers carry out managerial functions, but the time spent for each function may differ.

All managers carry out managerial functions. However, the time spent for each function may differ. Figure 1-1 shows an approximation of the relative time spent for each function. Thus, top-level managers spend more time on planning and organizing than do lower-level managers. Leading, on the other hand, takes a great deal of time for first-line supervisors. The difference in time spent on controlling varies only slightly for managers at various levels.

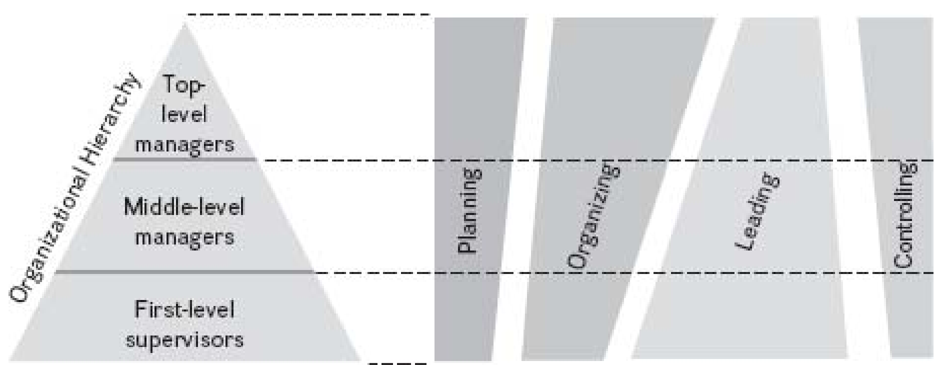


FIGURE 1-1 Time spent in carrying out managerial functions

Partly based on and adapted from Thomas A. Mahoney, Thomas H. Jerdee, and Stephen J. Carroll, "The Job(s) of Management," *Industrial Relations* (February 1965), pp. 97-110.

Managerial Skills and the Organizational Hierarchy

Robert L. Katz identified three kinds of skills for administrators: technical, human, and conceptual.[1] To these may be added a fourth—the ability to design solutions.

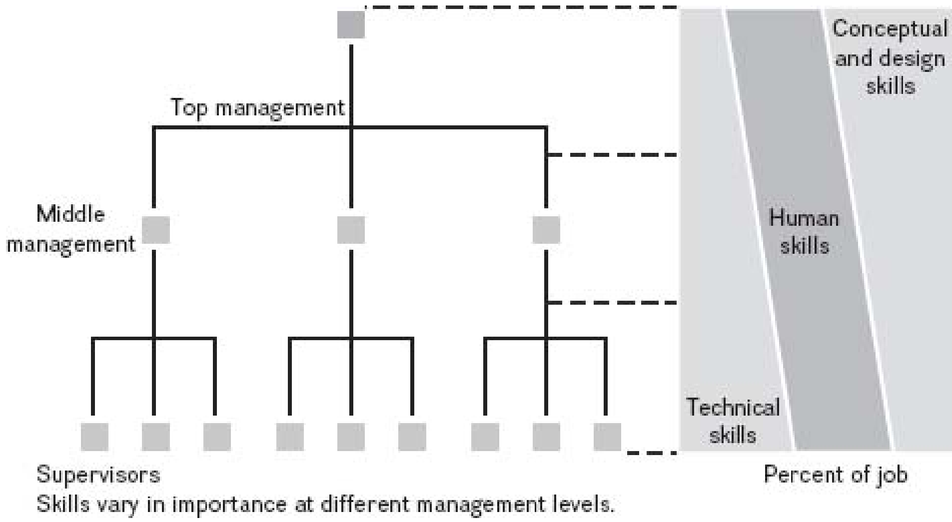


FIGURE 1-2 Skills and management levels

The relative importance of these skills may differ at various levels in the organizational hierarchy. As shown in Figure 1-2, *technical skills* are of great importance at the supervisory level and *human skills* are helpful in the frequent interactions with subordinates. *Conceptual* and *design skills*, on the other hand, are usually not critical for lower-level supervisors. At the middle management level, the need for technical skills decreases, human skills are still essential, while conceptual skills gain in importance. At the top management level, conceptual and design abilities and human skills are especially valuable, but there is relatively little need for technical abilities. It is assumed, especially in large companies, that chief executive officers (CEOs) can utilize the technical abilities of their subordinates. In smaller firms, however, technical experience may still be quite important.

Four skills required of administrators: technical, human, conceptual, and design skills.

The Goals of All Managers and Organizations

The aim of all managers should be to create a surplus by establishing an environment in which people can accomplish group goals with the least amount of time, money, materials, and personal dissatisfaction.

Nonbusiness executives sometimes say that the aim of business managers is simple—to make a profit. But profit is really only a measure of a surplus of sales receipts over expenses. For many businesses, an important goal is the long-term increase in the value of their common stock. Michael Porter at Harvard is critical about the emphasis of shareholder value when he wrote that "we lost sight of profitability as the goal and substituted shareholder value measured by stock price."[2] This, Porter suggests, has destroyed many enterprises. In a very real sense, in all kinds of organizations, whether business or nonbusiness, the logical and publicly desirable aim of all managers should be a *surplus.* Thus, managers must establish an environment in which people can accomplish group goals with the least amount of time, money, materials, and personal dissatisfaction or in which they can achieve as much as possible of a desired goal with available resources. In a nonbusiness enterprise such as a police department as well as in units of a business that are not responsible for total business profits such as an accounting department, managers still have goals and should strive to accomplish them with the minimum of resources or to accomplish as much as possible with available resources.

Leadership Perspective

Who Managed Best in 2008, the Year of the Global Crisis?[3]

The year 2008 was a year of economic crises around the world. Who managed best during such times? *Business Week* identified 12 executives who performed well during difficult times. Here are some examples and what one can learn from them:

Jim Sinegal, CEO of Costco, did not raise prices despite rising costs. This helped the company to gain market share. The members-only retail chain retained 87 percent of their members by providing a sense of value during uncertain economic times.

Frank Blake, CEO at Home Depot, simplified his company and increased morale among its employees. He thinks that people should feel comfortable in speaking their minds. He also visits yearly Jack Welch, the former GE CEO, for advice.

David Axelrod, main strategist of the Obama campaign, helped Obama to gain the presidency of the United States. He helped to communicate Obama’s vision of change. He recruited effective people who worked well together through good conflict resolution skills. He viewed himself as the messenger for Barack Obama.

Satoru Iwata, CEO of Nintendo in Tokyo, doubled the sales of the successful Wii. Consumers spent money on this innovative product despite hard economic times. He planned to continue redefining games, music, camera, and even health management features.

Takeo Fukui, CEO of Honda in Tokyo, continued to focus on fuel-efficient small cars with his efforts on innovation and research. His managerial approach was and is influenced by the classic American book *How to Stop Worrying and Start Living* by Dale Carnegie.

Peter Loescher, CEO of Siemens in Munich, did a good job of restructuring the company while at the same time dealing with the corruption and foreign bribery charges. His advice: "Listen, and then make clear decisions.”

Jeroen Van Der Veer, *CEO of Royal Dutch Shell in the Netherlands*, is guided by the philosophy of: Eliminate, Simplify, Standardize, and Automate.[4]

Characteristics of Excellent and Most Admired Companies

In the United States, profitability is an important measure of company excellence. At times, however, other criteria are also used that frequently coincide with financial performance. In their book *In Search of Excellence*, Thomas Peters and Robert Waterman identified 43 companies that they regarded as excellent.[5] In choosing the firms, they considered factors such as growth of assets and equity, average return on total capital, and similar measures. They also asked industry experts about the innovativeness of the companies.

The authors identified eight characteristics of excellent enterprises. Specifically, these firms:

1. were oriented toward action;
2. learned about the needs of their customers;
3. promoted managerial autonomy and entrepreneurship;
4. achieved productivity by paying close attention to the needs of their people;
5. were driven by a company philosophy often based on the values of their leaders;
6. focused on the business they knew best;
7. had a simple organization structure with a lean staff;
8. were centralized as well as decentralized, depending on appropriateness.

Two years after *In Search of Excellence* was published, *Business Week* took a second look at the companies that Peters and Waterman had considered excellent.[6] The magazine's survey revealed that at least 14 of the 43 companies did not measure up very well to several of the eight characteristics of excellence. Nine companies showed a great decline in earnings. While Peters and Waterman have been criticized in several respects (e.g., their methods of collecting and interpreting the data, such as extensive use of anecdotes and quotations from leaders in the field rather than using more scientific research sources), the performance review of the firms indicated that success may be only transitory and that it demands continuing hard work to adapt to the changes in the environment.[7]

International Perspective

Forbes Asia Ranks Asia's Top 50 Firms in S018[8]

The top firms included Anta Sports Products (China) that reached Yuan 10 Billion in annual sales, Ashok Leyland (India) which is the second largest maker of commercial vehicles, Netmarble (South Korea) which is the nation's largest mobile gaming firm, and Outsourcing Inc. (Japan) and TVS Motor (India) which is the nation's largest maker of mopeds. High growth to a global size requires thoughtful management on key activities throughout the life of the organization.

Advances in Technologies, Trends in Globalization, and a Focus on Entrepreneurship for Adapting to Changes in the 21st Century

To succeed and survive in the 21st century, companies must leverage advances in technology, trends in globalization, and manage entrepreneurially.

Technology[9]

Technology, and especially information technology (IT), has a pervasive impact on both organizations and individuals. The Internet connects people and organizations through a global network. Electronic commerce (e-commerce) is increasingly used for transactions between individuals and companies (B2C) as well as between businesses (B2B). The number of people connecting to the Internet varies among countries. As of January 2019, over four billion people across the world were active Internet users and just under four billion used the mobile web.[10] This increasing connectivity and use of mobile or wireless commerce for buying and selling goods dictates that organizations update their business models for marketing and selling their goods and service.

Globalization[11]

The second major trend is globalization. Most major corporations have an international presence. The World Trade Organization

(WTO), an umbrella organization, was established in 1995 to govern international trade. Despite street protests at WTO meetings, globalization continues. The gains from globalization not only benefit corporations, but also result in higher incomes for workers in developing countries and more organizational functions are outsourced or off-shored to rationalize cost structures. Clearly, managers must develop an international perspective. Chapter 3 will address several global issues in detail. In addition, international topics are discussed in the international perspectives shown throughout the book.

Innovation and Entrepreneurship

An increasing focus on innovation and entrepreneurship as national and organizational imperatives has become more evident. Entrepreneurship and innovation are seen by governments as a means to increase employment, productivity, and prosperity among their populations, while organizations—large and small—find that entrepreneurial innovation and expansion into new customer segments are essential to their success and survival in increasingly competitive markets.

Innovation is focused on enhancing products and services and commercializing them while entrepreneurship is a process that is centered in the notion of identifying market opportunities and unmet needs. It is building solutions that meet these needs and bring value to customers. Entrepreneurs build organizations that provide products that alleviate people's pain (e.g., pharmaceutical companies) or provide the means for people to enhance their own lives through sophisticated telecommunications (e.g., IT companies) while creating economic surplus. Venkatramen (1997) asserted that "Entrepreneurship as a scholarly field seeks to understand how opportunities to bring into existence 'future' goods and services are discovered, created and exploited, by whom and with what consequence."[12]

From the entrepreneurial and innovative epicenter of the Silicon Valley to the emerging entrepreneurial centers around the world, new venture creation and innovation are the driving forces of progress for mankind. We highlight these entrepreneurial trends and their correspondence with a wide range of management challenges throughout each chapter.

Entrepreneurial Perspective

Silicon Valley Immersion[13]

Silicon Valley remains the primary destination for those with ambition to develop a high-growth venture. For example, Mark Zuckerberg, the cofounder and CEO of facebook, realized early on that while he developed facebook at Harvard University he would need to move to Silicon Valley to take advantage of its ecosystem that supported high-growth entrepreneurship. The Silicon Valley ecosystem features venture capital to finance high-growth ventures, legal expertise to guide these ventures, and technological and human capital to develop creative new ventures.

Entrepreneurs, firms, universities, and governments from around the world also recognize the value of the Silicon Valley ecosystem and desire to learn from it and leverage it to promote successful entrepreneurship and innovation. Groups from around the world visit Silicon Valley to do just that. Programs like the Silicon Valley Immersion Program at the University of San Francisco host groups from Latin America, Asia, and Europe and introduce them to the unique Silicon Valley entrepreneurial ecosystem through lectures by local experts, visits to cutting edge firms, and networking events with local entrepreneurs and investors. Groups from Portugal, Mexico, Argentina, Peru, Chile, China, and elsewhere have come to the University of San Francisco to live and learn in the Silicon Valley ecosystem and increase their own capacity to entrepreneurship and innovate the Silicon Valley way. https://www.usfca.edu/management/ executive-education/silicon-valley-immersion-program

Productivity, Effectiveness, and Efficiency

Another way to view the aim of managers is that they must raise productivity. After World War II, the United States became the world leader in productivity. But in the late 1960s, productivity growth began to decelerate. Today, the urgent need for productivity improvement is recognized around the world by governments, industry, and universities. The Organization for Economic Cooperation and Development (OECD) measures productivity across nations. As of 2017, the OECD found that Luxembourg is the most productive country as measured by the gross domestic product per person. Ireland, Norway, Switzerland, and the United States make up the next four most productive countries.[14]

Definition of productivity

Successful companies create a surplus through productive operations. Although there is no complete agreement on the true meaning of **productivity**, let us define it as the output-input ratio within a time period with due consideration for quality. It can be expressed as follows:

$$\text{Productivity} = \frac{\text{Outputs}}{\text{Inputs}} \text{ (within a time period, quality considered)}$$

Productivity The output–input ratio within a time period with due consideration for quality.

The formula indicates that productivity can be improved by (1) increasing outputs with the same inputs, (2) decreasing inputs but maintaining the same outputs, or (3) increasing outputs and decreasing inputs to change the ratio favorably. Companies use several kinds of inputs such as labor, materials, and capital. Total factor productivity combines various inputs to arrive at a composite input. In the past, productivity improvement programs were mostly aimed at the worker level. Yet, as Peter F. Drucker, one of the most prolific writers in management, observed, "The greatest opportunity for increasing productivity is surely to be found in knowledge work itself, and especially in management."[15]

Definitions of effectiveness and efficiency

Productivity implies effectiveness and efficiency in individual and organizational performance. **Effectiveness** is the achievement of objectives and **efficiency** is the achievement of the ends with the least amount of resources. Managers cannot know whether they are productive unless they first know their goals and those of the organization, a topic that will be discussed in Chapter 4.

Effectiveness The achievement of objectives.
Efficiency The achievement of the ends with the least amount of resources.

MANAGING: SCIENCE OR ART?[16]

Managing, like all other practices—whether medicine, music composition, engineering, accountancy, or even baseball—is an art. It is know-how. It is doing things in light of the realities of a situation. Yet, managers can work better by using the organized knowledge about management. It is this knowledge that constitutes a science. Thus, managing as practice is an *art*; the organized knowledge underlying the practice may be referred to as *science*. In this context, science and art are not mutually exclusive; they are complementary.

Managing as practice is an art; the organized knowledge underlying the practice is science.

As science improves, so should art, as has happened in the physical and biological sciences. To be sure, the science underlying managing is fairly crude and inexact because the many variables that managers deal with are extremely complex. Nevertheless, such management knowledge can certainly improve managerial practice. Physicians without the advantage of science would be little more than witch doctors. Executives who attempt to manage without management science must trust luck, intuition, or do what they did in the past.

In managing, as in any other field, unless practitioners are to learn by trial and error (and it has been said that managers' errors are their subordinates' trials), there is no place they can turn to for meaningful guidance other than the accumulated knowledge underlying their practice.

THE EVOLUTION OF MANAGEMENT THOUGHT

Many different contributions of writers and practitioners have resulted in different approaches to management, and these make up a "management theory jungle." Later in this chapter, you will learn about the different patterns of management analysis and what can be done to untangle the jungle. Table 1-1 summarizes the major contributions of management writers and practitioners.[17] We will highlight Frederick Taylor's scientific management, Henri Fayol's modern operational management theory, and Elton Mayo and F. J. Roethlisberger's Hawthorne studies.

TABLE 1-1 The emergence of management thought

Name and year of major work	Major contribution to management
Scientific management	
Frederick W. Taylor *Shop Management* (1903) *Principles of Scientific Management* (1911) *Testimony before the Special House Committee* (1912)	Acknowledged as the father of scientific management. His primary concern was to raise productivity through greater efficiency in production and increased pay for workers by applying the scientific method. His principles emphasize using science, creating group harmony and cooperation, achieving maximum output, and developing workers.
Henry L. Gantt (1901)	Called for scientific selection of workers and "harmonious cooperation" between

	labor and management. Developed the Gantt chart (Chapter 19). Stressed the need for training.
Frank and Lillian Gilbreth (1900)	Frank is known primarily for his time and motion studies. Lillian, an industrial psychologist, focused on the human aspects of work and the understanding of workers' personalities and needs.
Modern operational management theory	
Henri Fayol *Administration Industrielle et Generale* (1916)	Referred to as the father of modern management theory. Divided industrial activities into six groups: technical, commercial, financial, security, accounting, and managerial. Recognized the need for teaching management. Formulated 14 principles of management, such as authority and responsibility, unity of command, scalar chain, and esprit de corps.
Behavioral sciences	
Hugo Munsterberg (1912)	Application of psychology to industry and management.
Walter Dill Scott (1910, 1911)	Application of psychology to advertising, marketing, and personnel.
Max Weber (translations 1946, 1947)	Theory of bureaucracy.
Vilfredo Pareto (books 1896-1917)	Referred to as the father of the social systems approach to organization and management.
Elton Mayo and F. J. Roethlisberger (1933)	Famous studies at the Hawthorne plant of the Western Electric Company on the influence of social attitudes and relationships of work groups on performance.
Systems theory	

Chester Barnard *The Functions of the Executive* (1938)	The task of managers is to maintain a system of cooperative effort in a formal organization. Suggested a comprehensive social systems approach to managing.
Modern management thought	
Many authors are discussed in this book. Major contributors include Chris Argyris, Robert R. Blake, C. West Churchman, Ernest Dale, Keith Davis, Mary Parker Follett, Frederick Herzberg, G. C. Homans, Harold Koontz, Rensis Likert, Douglas McGregor, Abraham H. Maslow, Lyman W. Porter, Herbert Simon, George A. Steiner, Lyndall Urwick, Norbert Wiener, and Joan Woodward.	
Peter F. Drucker (1974)	Very prolific writer on many general management topics.
W. Edwards Deming (after World War II)	Introduced quality control in Japan.
Laurence Peter (1969)	Observed that eventually people get promoted to a level where they are incompetent.
William Ouchi (1981)	Discussed selected Japanese managerial practices adapted in the U.S. environment.
Thomas Peters and Robert Waterman (1982)	Identified characteristics of companies they considered excellent.
C.K. Prahalad and Gary Hamel (1990)	Introduced the view of the "core competency of the corporation" that envisions the firm as a portfolio of core competencies rather than a collection of business units to better enable managers to identify and employ the firm's competitive advantage.
Clayton Christensen (1997)	Introduced Disruptive Innovation as a method by which firms can develop new products and processes.
Henry Chesbrough (2003)	Introduced Open Innovation Model as a method by which firms can incorporate

	multiple sources of creativity and innovation to develop new products and processes.

Source: Some information in this table is based on Claude S. George, Jr., *The History of Management Thought* (Englewood Cliffs, NJ: Prentice Hall, 1972).

Frederick Taylor and Scientific Management[18]

Frederick Winslow Taylor gave up going to college and started out as an apprentice pattern maker and machinist in 1875, joined the Midvale Steel Company in Philadelphia as a machinist in 1878, and rose to the position of chief engineer after earning a degree in engineering through evening study. He invented high-speed steel-cutting tools and spent most of his life as a consulting engineer. He is generally acknowledged as the father of scientific management. Probably no other person has had a greater impact on the early development of management. His experiences as an apprentice, a common laborer, a foreman, a master mechanic, and then the chief engineer of a steel company gave Taylor ample opportunity to know firsthand the problems and attitudes of workers and to see the great possibilities for improving the quality of management.

Frederick W. Taylor 1856–1915(Historical Pictures Service, Chicago)

Taylor's famous work *Principles of Scientific Management* was published in 1911. The fundamental principles that Taylor saw underlying the scientific approach to management are:

- Replacing rules of thumb with science (organized knowledge).
- Obtaining harmony rather than discord in group action.
- Achieving cooperation of human beings rather than chaotic individualism.
- Working for maximum output rather than restricted output.
- Developing all workers to the fullest extent possible for their own and their company's highest prosperity.

You will notice that these basic precepts of Taylor's are not far from the fundamental beliefs of the modern manager.

Henri Fayol, the Father of Modern Management Theory[19]

Perhaps, the real father of modern management theory is the French industrialist Henri Fayol. He recognized a widespread need for principles and management teaching. Consequently, he identified 14 such principles, noting that they are flexible, not absolute, and must be usable regardless of changing conditions. Let us look at some of these principles:

Henri Fayol 1841–1925(Ronald T. Greenwood)

- *Authority and responsibility.* Fayol suggests that authority and responsibility are related, with the latter arising from the former. He sees authority as a combination of official factors, deriving from the manager's position, and personal factors, "compounded of intelligence, experience, moral worth, past service, etc."
- *Unity of command.* Employees should receive orders from one superior only.
- *Scalar chain.* Fayol thinks of this as a "chain of superiors" from the highest to the lowest ranks, which, while not to be departed from needlessly, should be short-circuited when following it scrupulously would be detrimental.

- *Esprit de corps.* This is the principle that “in union there is strength” as well as an extension of the principle of unity of command, emphasizing the need for teamwork and the importance of communication in obtaining it.

Fayol regarded the elements of management as the functions of planning, organizing, commanding, coordinating, and controlling.

Elton Mayo and F. J. Roethlisberger and the Hawthorne Studies

Elton Mayo, F. J. Roethlisberger, and others undertook the famous experiments at the Hawthorne plant of the Western Electric Company between 1927 and 1932.[20] Earlier, from 1924 to 1927, the National Research Council made a study in collaboration with Western Electric to determine the effect of illumination and other conditions on workers and their productivity. Finding that productivity improved when illumination was either increased or decreased for a test group, the researchers were about to declare the whole experiment a failure. However, Mayo of Harvard saw in it something unusual and, with Roethlisberger and others, continued the research.

www.thoemmes.com/encyclopedia/mayo.htm

What Mayo and his colleagues found, partly on the basis of the earlier thinking of Vilfredo Pareto, was to have a dramatic effect on management thought. Changing illumination for the test group, modifying rest periods, shortening workdays, and varying incentive pay systems did not seem to explain changes in productivity. Mayo and his researchers then came to the conclusion that other factors were responsible. They found in general that the improvement in productivity was due to such social factors as morale, satisfactory interrelationships between members of a work group (a sense of belonging), and effective management—a kind of managing that takes into account human behavior, especially group behavior, and serves it through such interpersonal skills as motivating, counseling, leading, and communicating. This phenomenon, arising basically from people being "noticed," has been named the Hawthorne effect.

Elton Mayo 1880–1949(Baker Library, Harvard University Graduate School of Business Administration)

Recent Contributors to Management Thought

Among the contributors to management thought are public administrators, business managers, and behavioral scientists, whose important works are discussed throughout this book. We will mention only a few here.

Peter F. Drucker has written on a variety of general management topics. Keith Davis helped us understand the informal organization. Two Americans,the late W. Edwards Deming[21] and Joseph M. Juran,[22] did much to improve the quality of Japanese products. The late Laurence Peter suggested that eventually people get promoted to a level where they are incompetent and no further promotion is possible. Unfortunately, this may result in organizations with incompetent people. William Ouchi, who wrote the best-selling book *Theory Z*, showed how selected Japanese management practices may be adapted in the United States. Finally, Thomas Peters and Robert Waterman discussed characteristics of excellent companies. Most of these works are discussed in greater detail in other parts of this book.

Innovation Perspective

The Wisdom of Peter Drucker[23]

The late Peter Drucker was one of the most influential management thinkers. During his 60-year career, he wrote 39 books and consulted with executives of major companies. However, his interests were not only restricted to managerial insights, but also extended to Japanese art and European history. Yet, his focus was on making workers more productive. He popularized Management by Objectives in his classic book *The Practice of Management*, in which he emphasized the importance of having a clear purpose and the setting of verifiable objectives. This means that objectives are verifiable if, at the end of the period, one can see whether the objective has been achieved.

Drucker consulted with CEOs of major companies such as Jack Welch, the former CEO of General Electric (GE), who is considered by many as the most effective executive managers of a large complex organization. Drucker's questioning may have lead to Welch's axiom which suggested that if one of GE's business units is not No. 1 or No. 2 in its industry (or has a good chance to become so) it should be discarded. Drucker's effectiveness was in raising important questions. One top manager asked why he should pay Drucker's consulting fees if the CEO was to answer all the questions. However, Drucker's questioning approach often led to identifying the direction the company should go. Andrew Grove, the former CEO at Intel, was impressed by Drucker's discussion of the multiple roles of the CEO, namely that of presenting the firm to the public, the role of the strategist, and that of the operational manager. Moreover, Drucker suggested that a manager should not be promoted on his or her potential, but on performance.

In 1943, he studied the organizational structure of GM which resulted in the book *The Concept of the Corporation.* His view was that "it takes people capable of joint performance, to make their strengths effective and weaknesses irrelevant."

Drucker had a deep concern not only for making workers more productive, but also that employees are the organization's most valuable assets and that decision-making should be pushed down in the organization to the lowest levels in the hierarchy (i.e., delegation). Some other nuggets of his managerial philosophy are that at the center of the organization are human beings, not machines or buildings. He also suggested that managers do the same in the United States, Germany, Japan, and China, but how they do it may be different.

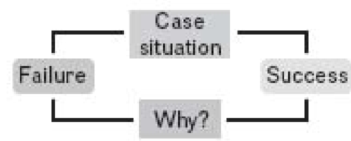
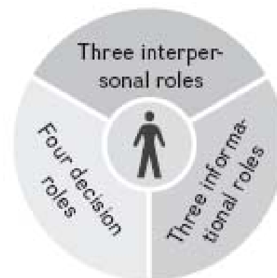
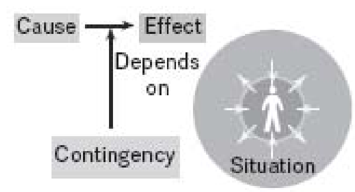
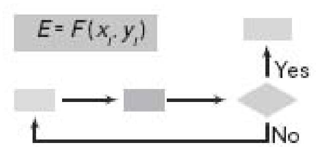
Organizational learning, training, and development need to be done at all levels of the organization. It is a continuing effort. Profitability is not the purpose but a necessity in organizations. Marketing starts with the customer and his or her values and needs. He asked questions such as: Where do the customers live and what do they want to buy? Simple? Yes, but it is powerful for an effective strategy.

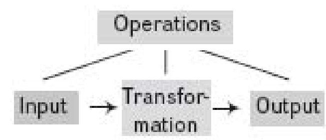
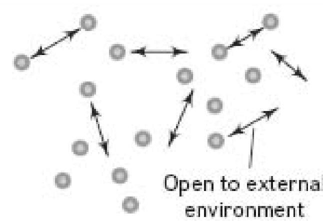
Long before it was generally recognized, Drucker popularized the notion of the "knowledge worker" and the special considerations for managing him or her. But management is not only for profit-oriented enterprises, but also for churches, labor unions, youth groups, and hospitals, a view that is emphasized in this book.

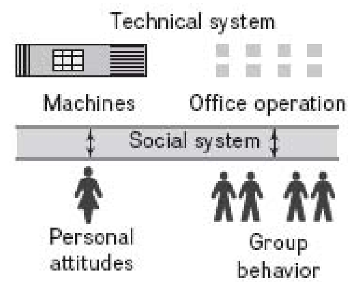
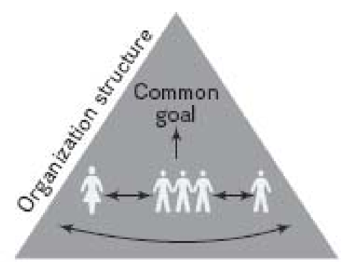
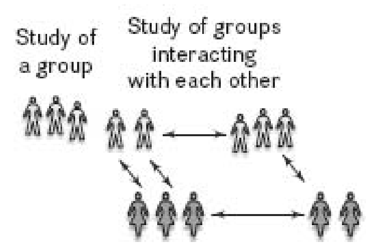
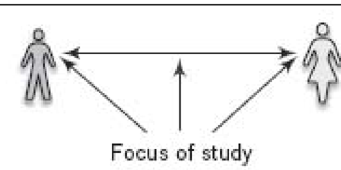
PATTERNS OF MANAGEMENT ANALYSIS: A MANAGEMENT THEORY JUNGLE?

Although academic writers and theorists contributed notably little to the study of management until the early 1950s (previous writings having come largely from practitioners), the past several decades have seen a veritable deluge of writing from the academic halls. The variety of approaches to management analysis, the amount of research, and the great number of differing views have resulted in much confusion as to what management is, what management theory and science are, and how managerial events should be analyzed. As a matter of fact, Harold Koontz many years ago called this situation "the management theory jungle."[24] Since that time, the vegetation in this jungle has changed somewhat—new approaches have developed and older approaches have taken on some new meanings with some new words attached— but the developments of management science and theory still have the characteristics of a jungle.

The various approaches to management analysis are summarized in Figure 1-3, where they are grouped into 14 categories. The characteristics, contributions, and limitations of each approach are shown in the figure. We will focus here on the managerial roles approach and the management process (or operational) approach.

Characteristics/ Contributions	Limitations	Illustration
Empirical or case approach[31]		
Studies experience through cases. Identifies successes and failures.	Situations are all different. No attempt to identify principles. Limited value for developing management theory.	
Managerial roles approach		
Original study consisted of observations of five chief executives. On the basis of this study, 10 managerial roles were identified and grouped into interpersonal, informational, and decision roles.	Original sample was very small. Some activities are not managerial. Many activities are evidence of planning, organizing, staffing, leading, and controlling. Some important managerial activities are left out (e.g., appraising managers).	
Contingency or situational approach		
Managerial practice depends on circumstances (i.e., a contingency or a situation). Contingency theory recognizes the influence of given solutions on organizational behavior patterns.	Managers have long realized that there is no one best way to do things. Difficult to determine all relevant contingency factors and to show their relationships. Can be very complex.	
Mathematical or "management science" approach		
Sees managing as mathematical processes, concepts, symbols, and models. Looks at management as a purely logical process expressed in mathematical symbols and relationships.	Preoccupation with mathematical models. Many aspects in managing cannot be modeled. Mathematics is a useful tool, but hardly a school or an approach to management.	

Characteristics/ Contributions	Limitations	Illustration
Decision theory approach		
Focuses on the making of decisions, persons or groups making decisions, and the decision-making process. Some theorists use decision-making as a springboard to study all enterprise activities. The boundaries of study are no longer clearly defined.	There is more to managing than making decisions. The focus is at the same time too narrow and too wide.	
Reengineering approach		
Concerned with fundamental rethinking, process analysis, radical redesign, and dramatic results.	Neglects external environment. Possibly ignores customers' needs. Neglects human needs. Ignores total management system, unlike the management process or operational approach.	
Systems approach		
Systems concepts have broad applicability. Systems have boundaries, but they also interact with the external environment; that means organizations are open systems. Recognizes the importance of studying interrelatedness of planning, organizing, and controlling in an organization as well as in the many subsystems.	Can hardly be considered a new approach to management as claimed by some proponents of this approach.	

Characteristics/ Contributions	Limitations	Illustration
Sociotechnical systems approach		
Technical system has a great effect on social system (personal attitudes, group behavior). Focuses on production, office operations, and other areas with close relationships between the technical system and people.	Emphasizes only blue-collar and lower-level office work. Ignores much of other managerial knowledge.	
Cooperative social systems approach		
Concerned with both interpersonal and group behavioral aspects leading to a system of cooperation. Expanded concept includes any cooperative group with a clear purpose.	Too broad a field for the study of management. At the same time, it overlooks many managerial concepts, principles, and techniques.	
Group behavior approach		
Emphasizes behavior of people in groups. Based on sociology and social psychology. Primarily studies group behavior patterns. The study of large groups is often called organizational behavior.	Often not integrated with management concepts, principles, theory, and techniques. Need for closer integration with organizational structure design, staffing, planning, and controlling.	
Interpersonal behavior approach		
Focuses on interpersonal behavior, human relations, leadership, and motivation. Based on individual psychology.	Ignores planning, organizing, and controlling. Psychological training is not enough for becoming an effective manager.	

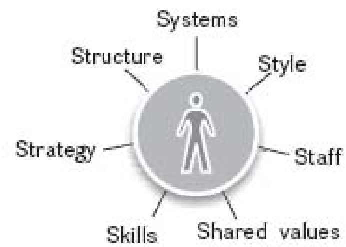
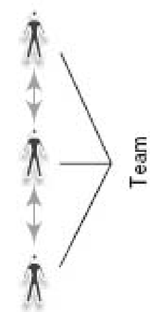
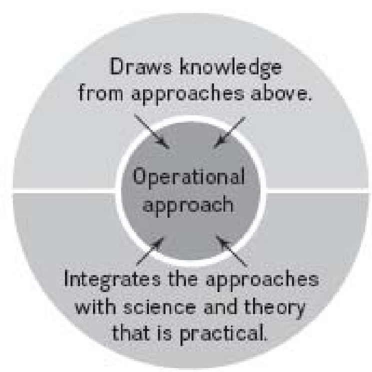
Characteristics/ Contributions	Limitations	Illustration
McKinsey's 7-S framework		
The seven S's are (1) strategy, (2) structure, (3) systems, (4) style, (5) staff, (6) shared values, and (7) skills.	Although this experienced consulting firm uses a framework similar to that found useful by Koontz and colleagues since 1955 and confirms its practicality, the terms used are not precise and topics are not discussed in depth.	
Total quality management approach		
Focuses on providing dependable and satisfying products and services (Deming) or products or services that are fit for use (Juran) as well as conforming to quality requirements (Crosby). The general concepts are continuous improvement, attention to details, teamwork, and quality education.	No complete agreement on what total quality management is.	
Management process or operational approach		
Draws together concepts, principles, techniques, and knowledge from other fields and managerial approaches. The attempt is to develop science and theory with practical application. Distinguishes between managerial and nonmanagerial knowledge. Develops a classification system built around the managerial functions of planning, organizing, staffing, leading, and controlling.	Does not, as some authors do, identify representing or coordination as a separate function. Coordination, for example, is the essence of managership and is the purpose of managing.	

FIGURE 1-3 Approaches to management.

The Managerial Roles Approach

One widely discussed approach to management theory is the managerial roles approach, popularized by Henry Mintzberg of McGill University.[25] Essentially, his approach is to observe what managers actually do, and from such observations come to conclusions as to what managerial activities (or roles) are. Although many researchers have studied the actual work of managers—from CEOs to line supervisors—Mintzberg has given this approach higher visibility.

After systematically studying the activities of five CEOs in a variety of organizations, Mintzberg came to the conclusion that executives do not perform the classical managerial functions of planning, organizing, commanding, coordinating, and controlling. Instead, they engage in a variety of other activities. From his research and the research of others who had studied what managers actually did, Mintzberg concluded that managers really fill a series of ten roles:

Interpersonal roles

1. The figurehead role (performing ceremonial and social duties as the organization's representative)
2. The leader role
3. The liaison role (particularly with outsiders)

Informational roles

4. The recipient role (receiving information about the operation of an enterprise)
5. The disseminator role (passing information to subordinates)
6. The spokesperson role (transmitting information to those outside the organization)

Decision roles

7. The entrepreneurial role
8. The disturbance-handler role
9. The resource-allocator role

10. The negotiator role (dealing with various persons and groups of persons)

Mintzberg's approach has also been criticized. First, the sample of five CEOs used in his research is far too small to support so sweeping a conclusion. Second, in analyzing the actual activities of managers—from CEOs to supervisors—any researcher must realize that all managers do some work that is not purely managerial; one would expect even presidents of large companies to spend some of their time in public and stockholder relations, in fund-raising, and perhaps in dealer relations, marketing, and so on. Third, many of the activities Mintzberg found are in fact evidence of planning, organizing, staffing, leading, and controlling. For example, what is resource allocation but planning! The entrepreneurial role is certainly an element of planning and the interpersonal roles are mainly instances of leading. In addition, the informational roles can be fitted into a number of the functional areas.

Nevertheless, looking at what managers really do can have considerable value. In analyzing activities, an effective manager might wish to ascertain how activities and techniques fall into the various fields of knowledge reflected by the basic functions of managers. However, the roles Mintzberg identified appear to be incomplete. Where does one find such unquestionably important managerial activities as structuring an organization, selecting and appraising managers, and determining major strategies? Omissions such as these make one wonder whether the executives in his sample were really effective managers. They certainly raise a serious question as to whether the managerial roles approach, at least as put forth here, is an adequate one on which to base a practical, operational theory of management.

The Management Process or Operational Approach

The process or operational approach to management theory and science draws together the pertinent knowledge of management by relating it to the managerial job—what leaders do. Like other operational sciences, it tries to integrate the concepts, principles, and techniques that underlie the task of managing.

The management process or operational approach draws together the pertinent knowledge of management by relating it to the managerial job.

This approach recognizes that there is a central core of knowledge about managing that is pertinent only to the field of management. Such matters as line and staff, departmentation, managerial appraisal, and various managerial control techniques involve concepts and theories found only in situations involving managers. In addition, this approach draws on and absorbs knowledge from other fields, including systems theory, quality and reengineering concepts, decision theory, theories of motivation and leadership, individual and group behavior, social systems, and cooperation and communications as well as the application of mathematical analyses and concepts.

The nature of this approach can be seen in Figure 1-4. As this diagram shows, the management process or operational school recognizes the existence of a central core of science and theory peculiar to managing and also draws important contributions from various other schools and approaches. In addition, the management process theorist is interested not in all the important knowledge in these various fields but only in that which is deemed most useful and relevant to managing.

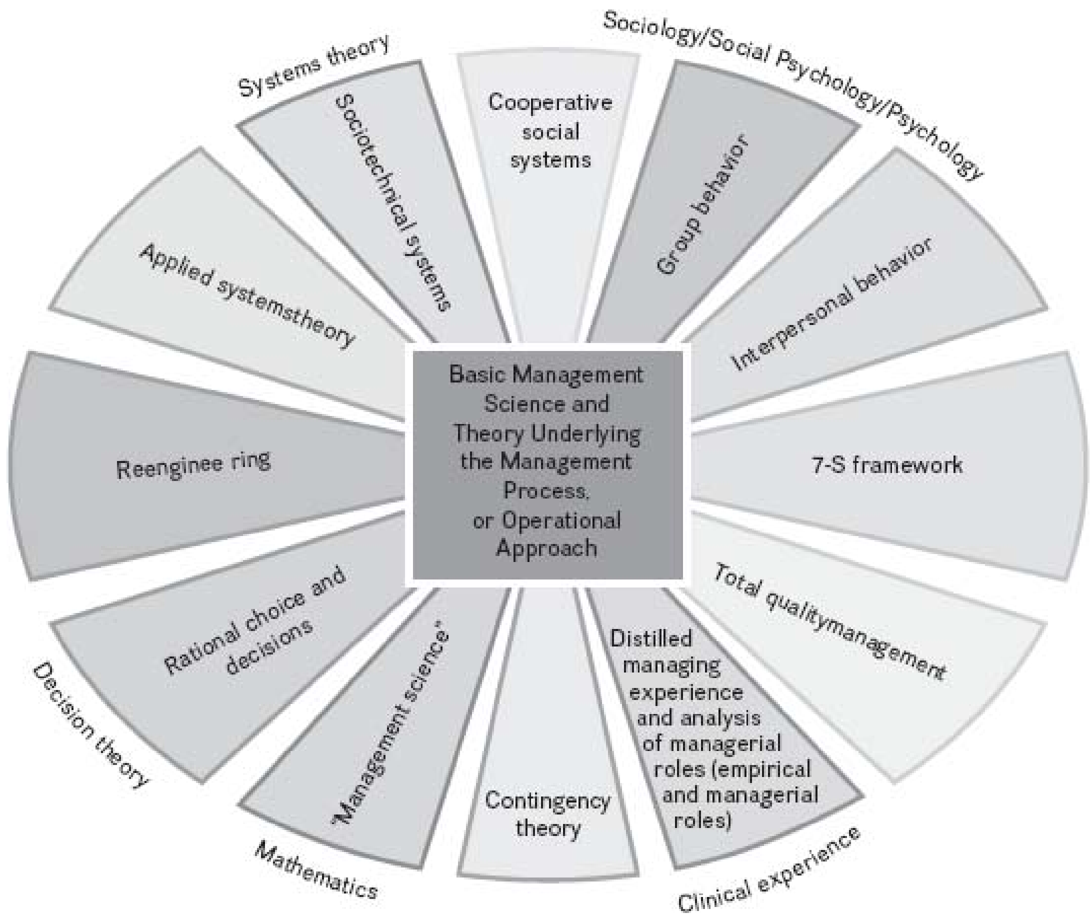


FIGURE 1-4 The management process or operational approach

THE SYSTEMS APPROACH TO THE MANAGEMENT PROCESS

An organized enterprise does not, of course, exist in a vacuum. Rather, it is dependent on its external environment; it is a part of larger systems such as the industry to which it belongs, the economic system, and society. Thus, the enterprise receives inputs, transforms them, and exports the outputs to the environment (Figure 1-5). However, this simple model needs to be expanded and developed into a model of process or operational management that indicates how the various inputs are transformed through the managerial functions of planning, organizing, staffing, leading, and controlling (Figure 1-6). When Peter Senge, the author of *The Fifth Discipline: The Art and Practice of the Learning Organization*, was asked what is the most important issue faced by domestic and international businesses today, he said, “I would say the system of management.”[26] This book is about the systems approach to the management process. Not only is the concern about the internal functioning of the enterprise, but it must also include the interactions between the enterprise and its external environment.

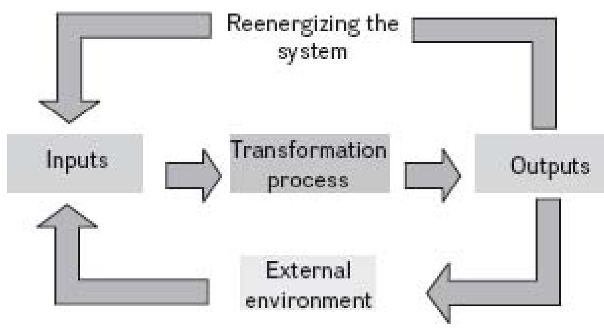


FIGURE 1-5 Input-output model

Inputs and Claimants*

The inputs from the external environment (Figure 1-6) may include people, capital, and managerial skills as well as technical knowledge and skills. In addition, various claimants make demands on the enterprise. For example, employees want higher pay, more benefits, and job security. Consumers demand safe and reliable products at reasonable prices. Suppliers want assurance that their products will be bought. Stockholders want not only a high return on their investment, but also security for their money. Federal, state, and local governments not only depend on taxes paid by the enterprise, but they also expect the enterprise to comply with their laws. Similarly, the community demands that enterprises be “good citizens,” providing the maximum number of jobs with a minimum of pollution. Other claimants to the enterprise may include financial institutions and labor unions; even competitors have a legitimate claim for fair play. It is clear that many of these claims are incongruent, and it is the manager's job to integrate the legitimate objectives of the claimants. This may need to be done through compromises, trade-offs, and denial of the manager's own ego.

Inputs People, capital, managerial skills, technical knowledge, and skills.

The task of managers is to transform the inputs in an effective and efficient manner into outputs.

The Managerial Transformation Process

It is the task of managers to transform the inputs in an effective and efficient manner into outputs. Of course, the transformation process can be viewed from different perspectives. Thus, one can focus on such diverse enterprise functions as finance, production, personnel, and marketing. Writers on management look at the transformation process in terms of their particular approaches to management. Specifically, writers belonging to the human behavior school focus on interpersonal relationships, social systems theorists analyze the transformation by concentrating on social interactions, and those advocating decision theory see the transformation as sets of decisions. However, the most comprehensive and useful approach for discussing the job of managers is to use the managerial functions of planning, organizing, staffing, leading, and controlling as a framework for organizing managerial knowledge. Therefore, this is the approach used as the framework of this book (Figure 1-6).

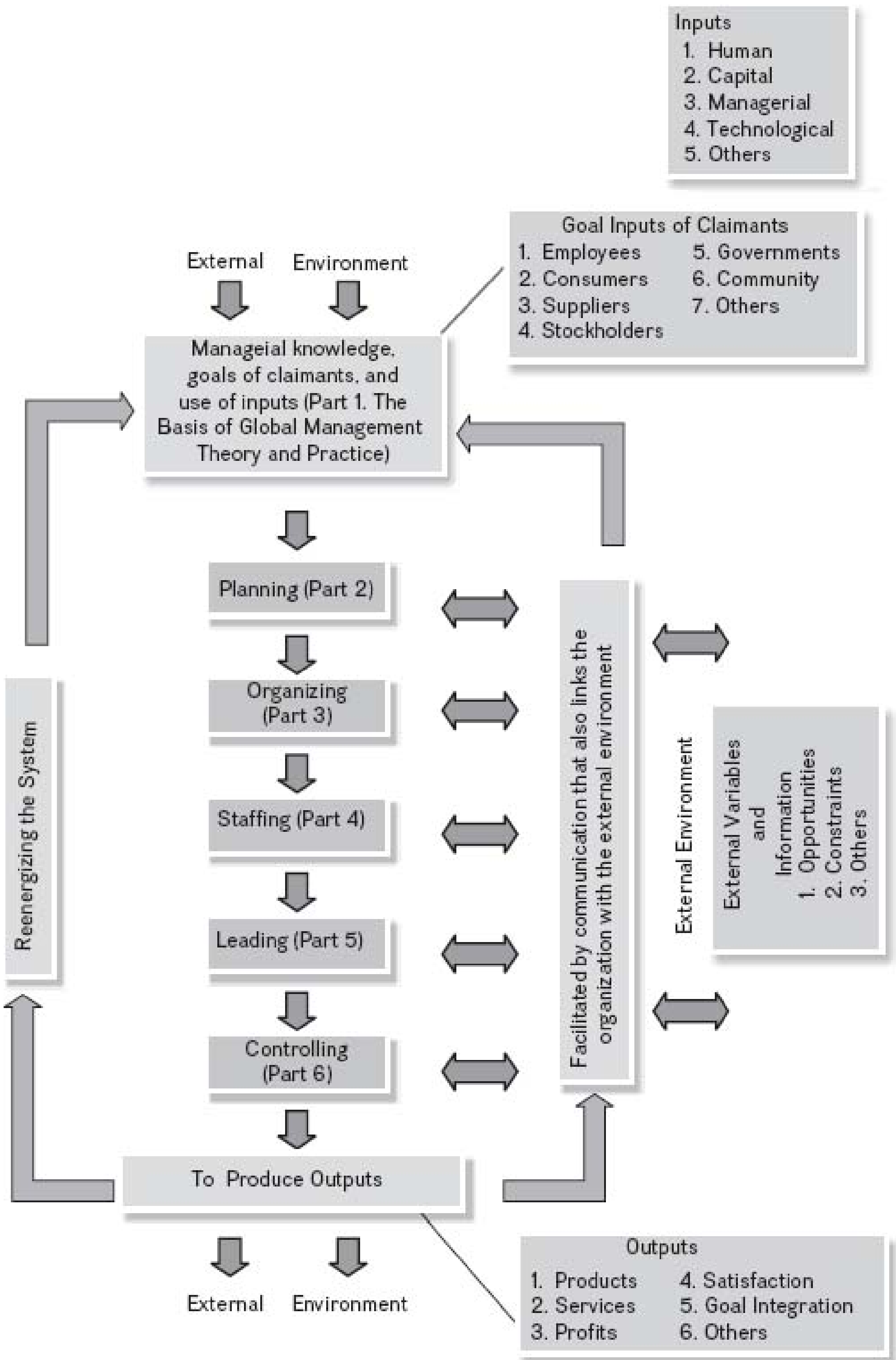


FIGURE 1-6 Systems approach to management

The Communication System

Communication is essential to all phases of the managerial process for two reasons. First, it integrates the managerial functions. For example, the objectives set in planning are communicated so that the appropriate organization structure can be devised. Communication is essential in the selection, appraisal, and training of managers to fill the roles in this structure. Similarly, effective leadership and the creation of an environment conducive to motivation depend on communication. Moreover, it is through communication that one determines whether events and performance conform to plans. Thus, it is communication that makes managing possible.

The second purpose of the communication system is to link the enterprise with its external environment, where many of the claimants are. For example, one should never forget that customers, who are the reason for the existence of virtually all businesses, are outside a company. It is through the communication system that the needs of customers are identified; this knowledge enables the firm to provide products and services at a profit. Similarly, it is through an effective communication system that the organization becomes aware of competition and other potential threats and constraining factors.

External Variables

Effective managers will regularly scan the external environment. While it is true that managers may have little or no power to change the external environment, they have no alternative but to respond to it. The forces acting in the external environment are discussed in various chapters, especially in chapters 2, 3, and 5.

Outputs

It is the task of managers to secure and utilize inputs to the enterprise to transform them through the managerial functions—with due consideration for external variables—into outputs. Although the kinds of outputs will vary with the enterprise, they usually include many of the products, services, profits, satisfaction, and integration of the goals of various claimants to the enterprise. Most of these outputs require no elaboration, and only the last two will be discussed.

Outputs Products, services, profits, satisfaction, and integration of the goals of claimants to the enterprise.

The organization must indeed provide many "satisfactions" if it hopes to retain and elicit contributions from its members. It must contribute to the satisfaction not only of basic material needs (e.g., employees' needs to earn money for food and shelter or to have job security), but also of the needs for affiliation, acceptance, esteem, and perhaps even self-actualization so that one can realize one's potential at the workplace.

Another output is goal integration. As noted earlier, the different claimants to the enterprise have very divergent—and often directly opposing—objectives. It is the task of managers to resolve conflicts and integrate these aims.

Reenergizing the System

Finally, it is important to note that, in the systems model of the management process, some of the outputs become inputs again. Thus, the satisfaction and new knowledge or skills of employees become important human inputs. Similarly, profits, the surplus of income over costs, are reinvested in cash and capital goods such as machinery, equipment, buildings, and inventory. You will see that the model shown in Figure 1-6 will serve as a framework in this book for organizing managerial knowledge. But let us first look closer at the managerial functions.

THE FUNCTIONS OF MANAGERS

The functions of managers provide a useful structure for organizing management knowledge (see the central part of Figure 1-6). There have been no new ideas, research findings, or techniques that cannot readily be placed in the classifications of planning, organizing, staffing, leading, and controlling.

Planning

Planning involves selecting missions and objectives as well as the actions to achieve them; it requires decision-making, which is choosing future courses of action from among alternatives. As Chapter 4 will show, there are various types of plans, ranging from overall purposes and objectives to the most detailed actions to be taken such as ordering a special stainless steel bolt for an instrument or hiring and training workers for an assembly line. No real plan exists until a decision—a commitment of human or material resources—has been made. Before a decision is made, all that exists is a planning study, an analysis, or a proposal; there is no real plan. The various aspects of planning are discussed in Part 2 of this book.

Planning Selecting missions and objectives as well as the actions to achieve them, which requires decision-making.

Organizing

People working together in groups to achieve some goal must have roles to play, much like the parts actors fill in a drama, whether these roles are the ones they develop themselves, are accidental or haphazard, or are defined and structured by someone who wants to make sure that they contribute in a specific way to group effort. The concept of a role implies that what people do has a definite purpose or objective; they know how their job objective fits into the group effort and they have the necessary authority, tools, and information to accomplish the task. This can be seen in as simple a group effort as setting up camp on a fishing expedition. Everyone could do anything he or she wants to do, but activity would almost certainly be more effective and certain tasks would be less likely to be left undone if one or two persons were given the job of gathering firewood, some the assignment of getting water, others the task of starting a fire, yet others the job of cooking, and so on.

Organizing, then, is that part of managing which involves establishing an intentional structure of roles for people to fill in an organization. It is intentional in the sense of making sure that all the tasks necessary to accomplish goals are assigned and, it is hoped, assigned to people who can do them best.

Organizing Establishing an intentional structure of roles for people to fill in an organization.

The purpose of an organization structure is to help create an environment for human performance. It is then a management tool and not an end in and of itself. Although the structure must define the tasks to be done, the roles so established must also be designed in light of the abilities and motivations of the people available.

Designing an effective organization structure is not an easy managerial task. Many problems are encountered in making structures fit situations, including both defining the kinds of jobs that must be done and finding the people to do them. These problems and the essential theories, principles, and techniques of handling them are the subjects of Part 3.

Staffing

Staffing involves filling and keeping filled the positions in the organization structure. This is done by identifying workforce requirements; inventorying the people available; and recruiting, selecting, placing, promoting, appraising, planning the careers of, compensating, and training or otherwise developing both candidates and current jobholders so that tasks are accomplished effectively and efficiently. This subject is dealt with in Part 4.

Staffing Filling and keeping filled the positions in the organization structure.

Leading

Leading is influencing people so that they will contribute to organizational and group goals; it has to do predominantly with the interpersonal aspect of managing. All managers would agree that their most important problems arise from people—their desires and attitudes as well as their behavior as individuals and in groups—and that effective managers also need to be effective leaders. Since leadership implies followership, and people tend to follow those who offer means of satisfying their own needs, wishes, and desires, it is understandable that leading involves motivation, leadership styles and approaches, and communication. The essentials of these subjects are dealt with in Part 5.

Leading Influencing people so that they will contribute to organizational and group goals.

Controlling

Controlling is measuring and correcting individual and organizational performance to ensure that events conform to plans. It involves measuring performance against goals and plans, showing where deviations from standards exist, and helping to correct deviations from standards. In short, controlling facilitates the accomplishment of plans. Although planning must precede controlling, plans are not self-achieving. Plans guide managers in the use of resources to accomplish specific goals; then, activities are checked to determine whether they conform to the plans.

Controlling Measuring and correcting individual and organizational performance to ensure that events conform to plans.

Control activities generally relate to the measurement of achievement. Some means of controlling like the budget for expenses, inspection records, and the record of labor hours lost are generally familiar. Each of them measures and each shows whether plans are working out. If deviations persist, correction is indicated. But what is corrected? Activities, through persons. Nothing can be done about reducing scrap, for example, or buying according to specifications, or handling sales returns unless one knows who is responsible for these functions. Compelling events to conform to plans—means locating the persons who are responsible for results that differ from the planned action and then taking the necessary steps to improve performance. Thus, outcomes are controlled by controlling what people do. This subject is treated in Part 6.

Coordination, the Essence of Managership

Some authorities consider coordination to be a separate function of the manager. It seems more accurate, however, to regard it as the essence of managership, for achieving harmony among individual efforts toward the accomplishment of group goals. Each of the managerial functions is an exercise contributing to coordination.

Even in the case of a church or a fraternal organization, individuals often interpret similar interests in different ways, and their efforts toward mutual goals do not automatically mesh with the efforts of others. It thus becomes the central task of the manager to reconcile differences in approach, timing, effort, or interest and to harmonize individual goals to contribute to organizational goals.

THREE MANAGEMENT PERSPECTIVES: INTERNATIONAL, INNOVATION, AND LEADERSHIP

In previous editions of this book, we viewed management from the international perspective. With increasing demands in the global competitive environment, we added the innovation and leadership perspectives in this book. Many perspectives have international, innovation, and leadership dimensions. Therefore, the perspectives inserts can be discussed from several viewpoints.

The International Perspective

This edition continues the tradition of viewing management from an international perspective which requires an understanding of the social, political, legal, and environmental forces that influence managing. Managers must develop their knowledge, attitude, and skills necessary to operate in the international environment, requiring an understanding of the political, social, cultural, and technological forces that affect management. Managers need to understand not only the forces in the developed countries, but also those in emerging and developing countries. Because the economies of China and India are playing important roles, this book will illustrate many management issues in those countries.

The Innovation Perspective[27]

Innovation is one of the most important elements in improving governments and businesses. It is the driver for succeeding in today's competitive environment. Indeed, innovation often means the difference between success and failure. Innovation is important for enterprises (business and nonbusiness alike) as well as societies There is no complete agreement on the term innovation. We define **innovation** as creating more effective and efficient processes, products, and services by using creative ideas and solutions to solve problems, finding opportunities, and enriching people's lives.

Innovation is creating more effective and efficient processes, products, and services by using creative ideas and solutions to solve problems, finding opportunities, and enriching people's lives.

Innovation Perspective

The World's Most Innovative Companies[28]

The *Fast Company* magazine identified and ranked the world's 50 most innovative companies. Perhaps of little surprise, the four top-ranked companies are Apple, Facebook, Google, and Amazon. Other highly ranked enterprises are Square, the credit card reader for the iPhone and Android. Twitter ranks next. Also highly ranked is the Occupy Movement that is challenging financial, political, and social institutions. The Southern New Hampshire University, which transformed an old college, ranked 12th. Tesla motors known for electric cars and its introduction of the new Model S family sedan ranked 13th. The German technology conglomerate Siemens is also an innovative giant known for producing components for electric cars and for demonstrating the hybrid electric plane. Many of the readers may store their files in the DropBox which is profitable despite the competition from Apple and Google. Starbucks overcame the 2007-2010 difficulties and is known for its innovations such as its Jobs for U.S.A. program and its lighter roast called “Blonde.” Starbuck’s more recent focus is on health and wellness items. With the current high health care costs, Narayana Hrudayalaya Hospitals in India make a major contribution by providing medical care for the poor. Dr. Devi Shetty^s response to Mother Teresa’s request for help changed not only his life, but also the low-cost, high- quality specialty care approach in India and Africa.

The mind map outlines some of the major innovation companies that were identified by the *Fast Company*. While most are located in the United States, companies in other countries are also noted for their contribution to innovation. This mind map only gives an overview of some innovative companies, but some of the listed ones will be discussed in this book in greater detail, as illustrated by the iPad case at the end of this chapter.

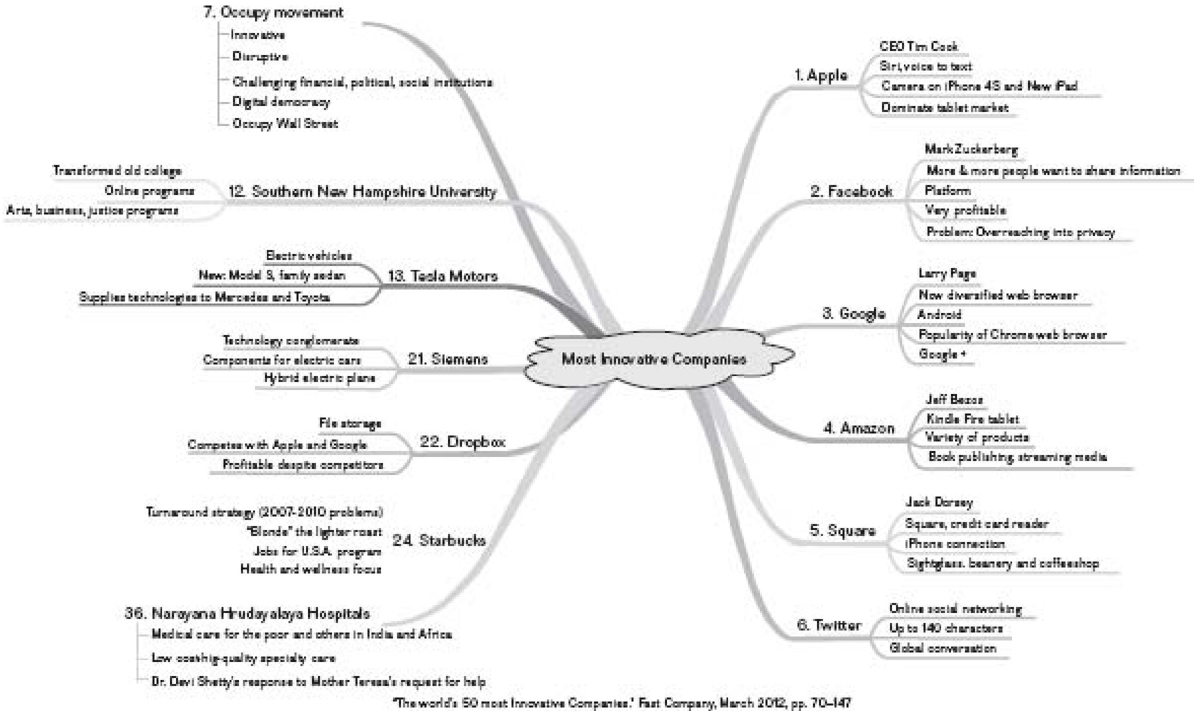


FIGURE 1-7 Overview of the book

The Leadership Perspective

The renewed interest in leadership requires that management is discussed from that perspective throughout the book. We define **leadership** as influence, that is, the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals. While some authors make a distinction between managers and leaders (with managers often depicted unfavorably), we suggest that good managers have to be good leaders. However, we maintain that good leaders also have to carry out effectively the managerial functions of planning, organizing, staffing, controlling and, of course, leading. Fred Luthans, in his book *Great Leaders: An Evidence-Based Approach*, uses the term *leaders* and *managers* interchangeably. Moreover, he argues that "this chapter on leadership styles, activities, and skills is also on management styles, activities, and skills,"[29] showing that managing and leading are closely intertwined. Our book, therefore, is about management with special attention given to the leadership aspects of managing.

Leadership is influence, that is, the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals

THE SYSTEMS MODEL OF MANAGEMENT AND THE ORGANIZATION OF THIS BOOK

The model of the systems approach to management is also the foundation for organizing managerial knowledge. Note that in Figure 1-6, the numbers shown in the model correspond to the parts of this book. Part 1 covers the basis of management and the interactions between the organization and its environment. This part cuts across all managerial functions. It deals with basic managerial knowledge such as theory, science, and practice. It also discusses the evolution of management and the various approaches to management. Since organizations are open systems, they interact with the external environment: domestic and international.

Figure 1-6 also shows that Part 2 deals with the various aspects of planning (chapters 4-6). Part 3 is concerned with organizing (chapters 7-10), while Part 4 deals with staffing (chapters 11-13), Part 5 with leading (chapters 14-17), and Part 6 with controlling (chapters 18-20).

This book has an international perspective of management. Increasingly, organizations operate in the global market. Therefore, comparative and international management aspects are discussed not only in Chapter 3, but also throughout the book.

The model shown in Figure 1-6 is repeated at the beginning of parts 2-6, but with the appropriate section highlighted. This feature of an integrative model shows the relationships of the topics in this book. In addition, the Mind Map diagram shows the chapters in each of the six parts of the book which enhances the understanding of the relationships among the chapters. The figure is also shown on the inside of the back cover.

SUMMARY

Management is the process of designing and maintaining an environment for efficiently accomplishing selected aims. Managers carry out the functions of planning, organizing, staffing, leading, and controlling. Managing is an essential activity at all organizational levels; however, the managerial skills required vary with the organizational level. The goal of all managers is to create a surplus. Enterprises must take advantage of the 21st-century trends in IT, globalization, and entrepreneurship. They must also focus on productivity, that is, to achieve a favorable output-input ratio within a specific time period with due consideration for quality. Productivity implies effectiveness (achieving of objectives) and efficiency (using the least amount of resources). Managing as practice is an art; organized knowledge about management is a science.

Many writers and practitioners have contributed to the development of management thought. The major contributors and their works are shown in Table 1-1. Many theories about management have been proposed, and each contributes something to our knowledge of what managers do. The characteristics and contributions as well as the limitations of the various approaches to management are summarized in Figure 1-3. The management process (or operational) approach draws from other theories of management and integrates them into a total system of managing.

The organization is an open system that operates within and interacts with the environment. The systems approach to management includes inputs from the external environment and from claimants, the transformation process, the communication system, external factors, outputs, and a way to reenergize the system. The transformation process consists of the managerial functions, which also provide the framework for organizing knowledge in this book. Throughout the book, but especially in Chapter 3, international aspects of managing are emphasized.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Management
- Managerial functions
- Managerial skills in the organizational hierarchy
- The goal of all managers
- Characteristics of excellent and most admired companies
- Three major trends: Advances in technology, globalization, and entrepreneurship
- Productivity, effectiveness, and efficiency
- Managing: Science or art?
- Major contributors to management thought
- Contributors to scientific management
- Fayol's operational management theory
- Mayo and Roethlisberger
- Recent contributors to management thought
- Management theory jungle
- Managerial roles approach
- Management process or operational approach
- Managers or leaders?
- Systems approach to the management process
- Five managerial functions
- The international perspective
- The innovation perspective
- The leadership perspective

FOR DISCUSSION

1. How would you define management? Does your definition differ from the one offered in this book? Explain.
2. What are the managerial functions?
3. How do the required managerial skills differ in the organizational hierarchy?

4. In what fundamental way are the basic goals of all managers at all levels and in all kinds of enterprises the same?
5. What are some of the characteristics of excellent companies (according to Peters and Waterman)? Do the companies you know have these characteristics?
6. How do advances in technologies, globalization, and entrepreneurship affect businesses?
7. What are the differences between productivity, effectiveness, and efficiency?
8. Is managing a science or an art? Could the same explanation apply to engineering or accounting?
9. Why has Frederick Taylor been called the father of scientific management and Henri Fayol the father of modern management theory?
10. What is meant by the term *management theory jungle?*
11. Identify the various approaches to management analysis. Discuss their characteristics and contributions as well as their limitations.
12. What do you consider ethical and unethical behavior? Give examples.
13. Is there a difference between managers and leaders?

EXERCISES/ACTION STEPS

1. Build your own LinkedIn profile. Be sure to include your professional experiences and education. Then, create a connection to 10 or more of your classmates and faculty.
2. Interview two local business managers and ask them how they learned about managing. Ask what kind of books they might have read on management (e.g., textbooks or popular books). Here are examples of management books: Gary Hamel and C. K. Prahalad, *Competing for the Future;* Michael Hammer and James Champy, *Reengineering the Corporation*; Charles Handy, *The Age of Paradox;* John P.

Kotter, *The New Rules: How to Succeed in Today's Post-Corporate World;* Peter M. Senge, *The Fifth Discipline*, and W. Chan Kim and Renee Mauborgne, *Blue Ocean Strategy.* Probe to what extent these books have helped them to manage. You may also find it interesting to read one of the best-selling books on management and mention it in the class discussion.

3. Interview two public administrators and ask them how their job differs from that of business managers. How do they know how well their department, agency, or organization is performing, since profit is probably not one of their criteria for measuring effectiveness and efficiency? Do they consider management an art or a science?

INTERNET RESEARCH

1. Review three of the following websites for current topics of management: *www.businessweek.com*, *www.economist.com*, *www.fortune.com*, *www.forbes.com*, *www.industryweek.com, http://public.wsj.com/home.html, www.hbsp.harvard.edu/ products/hbr/index.html, http://mitsloan.mit.edu/smr/index.html.* If you are interested in Indian issues, see http://www.businessworld.in
2. Read the cover stories of *Business Week*, *Fortune*, and *The Economist* on the Web (*www.businessweek.com*, *www.fortune.com*, *www.economist.com*) and identify any section in this book that relates to these stories.

Innovation Case

The Most Innovative Companies in the World[30]

The *FastCompany* publication identified some 50 companies in the world that are known for innovation, ranging from Google to Philips. Selected companies and some of their innovations are shown in mindmap in Figure 1-7. We will discuss two of those companies.

Google Illustration

Google is probably best known for Google search, the most widely used search engine on the World Wide Web. But there are many more recent and lesser known innovations. Google Glass is a wearable computer with a display that is worn like a pair of eyeglasses. It displays information similar to the smartphone and can communicate with the Internet. Then, there is the autonomous car or self-driving car which drove 500,000 miles without an accident. The project involves some 10 cars from Toyota, Audi, and Lexus. Chrome OS uses a Linux-based operating system to work especially with Web applications. This operating system is used for low-cost computers by Acer, Asus, Samsung, and other companies. YouTube is a mobile-friendly program that allows individuals to upload content on the video-sharing website. Street View allows a panoramic view in Google Maps and Google Earth. The viewer can see, for example, many streets and buildings in cities around the world. There are many other Google innovations, some of which you may have been using such as Gmail, Calendar, Google Maps, Picasa, Google Images, Google News, Google Drive, and others. Try some of them on the Web.

Unique Identification Authority of India

Another innovation with great impact on the people in India is the government- backed Unique Identification Authority of India (UID) that can be verified online. Of the 1.2 billion people, only few have a driver's license. The UID has the potential of reducing corruption and facilitating, for example, the wage payments of government workers. Without the ID, the payment went through several persons often requiring a bribe. Under the new system, the people complete a form at the UID enrollment center where a fingerprint is taken. With a 12-digit ID number, the persons can connect to their bank account. At a UID business, a fingerprint identifies the person and cash is handed out. This new process deletes the many middle persons who often expect a bribe before the cash gets to the recipients.

Innovations are occurring around the world. The potential of increased productivity with lower cost, improved quality, and speedy project completion can hardly be imagined. This is why this book now includes a special focus on innovation.

Questions

1. Select any company shown in the mindmap Figure 1-7 and discuss the impact of the innovation as well as some limitations.
2. Select two innovations by Google, including some not listed in the mindmap, and discuss the potential impact locally or globally.
3. Discuss the advantages and limitations of the UID system in India.
4. Interview two persons in India who has used the UID system and ask for their experiences.

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* At times, the term *non-manager* is used in reference to persons who have no subordinates. Thus, non-managers include professionals, creative or technical, who may have a high status in organizations.

* Claimants may also be called stakeholders

CHAPTER 2

Management and Society: The External Environment, Social Responsibility, and Ethics

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Describe the nature of the pluralistic society and selected environments
2. Explain the social responsibility of managers and the arguments for and against the social involvement of business
3. Understand the nature and importance of ethics in managing and ways to institutionalize ethics and raise ethical standards
4. Recognize that some ethical standards vary in different societies
5. Realize that trust is the basis for human interaction

Every time managers plan, they take into account the needs and desires of members of society outside the organization as well as the needs for material and human resources, technology, and other requirements in the external environment. They do likewise to some degree with almost every other kind of managerial activity.

All managers, whether they operate in a business, a government agency, a church, a charitable foundation, or a university, must in varying degrees take into account the elements and forces of their external environment. While they may be able to do little or nothing to change these forces, they have no alternative but to respond to them. They must identify, evaluate, and react to the forces outside the enterprise that may affect its operation. The impact of the external environment on the organization is illustrated in Figure 2-1. The constraining influences of external factors on the enterprise are even more crucial in international management (a fact discussed in Chapter 3).

This chapter deals with the impact of the external environment on the organization—with a focus on the technological and ecological environment—and the relationships between business and the society in which it operates. First, the focus is on the nature of the pluralistic society. Then, the discussion expands to the topics of social responsibility and ethical behavior.

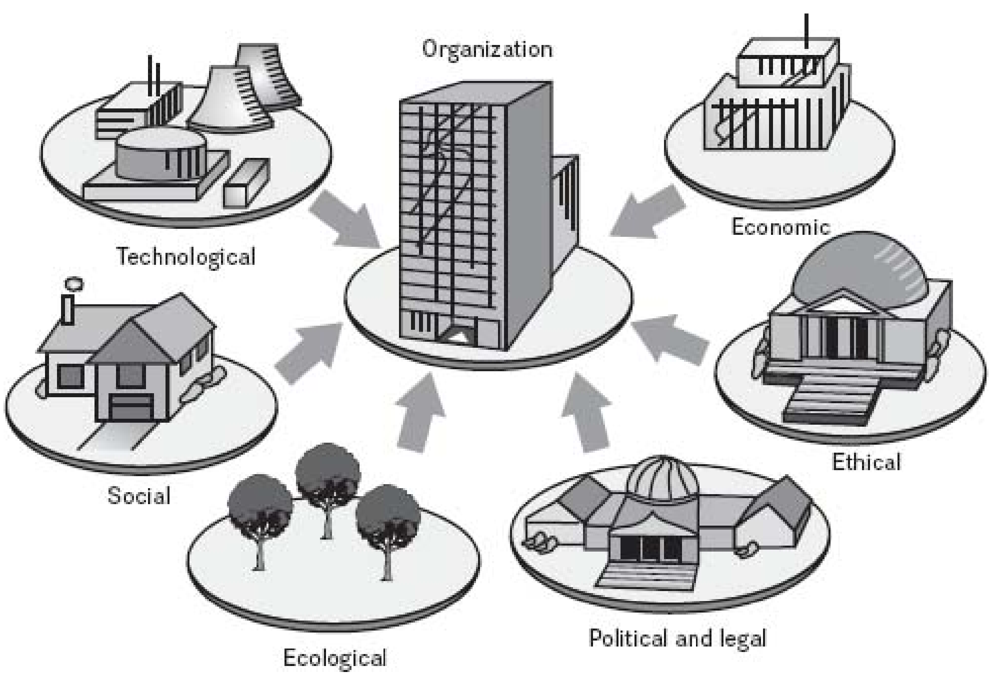

FIGURE 2-1 The organization and its external environment

OPERATING IN A PLURALISTIC SOCIETY

Managers operate in a **pluralistic society**, in which many organized groups represent various interests. Each group has an impact on other groups, but no one group exerts an inordinate amount of power. Many groups exert some power over business. As explained in Chapter 1, there are many stakeholders or claimants on the organization, and they have divergent goals. It is the task of the manager to integrate their aims.

Pluralistic society A society where many organized groups represent various interests.

Working within a pluralistic society has several implications for business. First, various groups, such as environmental groups, keep business power in balance. Second, business interests can be expressed by joining groups such as the Chamber of Commerce. Third, business can participate in projects with other responsible groups for the purpose of bettering society, for example, working toward the renewal of inner cities. Fourth, in a pluralistic society, there can be conflict as well as agreement among groups. Finally, in such a society, one group is quite aware of what other groups are doing.

THE TECHNOLOGICAL AND INNOVATIVE ENVIRONMENTS[1]

One of the most pervasive factors in the environment is technology. The term **technology** refers to the sum total of the knowledge we have of ways of doing things. It includes inventions, techniques, and the vast store of organized knowledge about everything from aerodynamics to zoology. But its main influence is on ways of doing things, on how we design, produce, distribute, and sell goods and services. Innovation can be discussed through the study of economics, entrepreneurship, business, organizations, and technology. We will also take a global perspective by examining the most innovative countries in Chapter 3, but the focus will be on technology in business and other organizations.

Technology The sum total of the knowledge we have of ways to do things.

Invention and Innovation

Invention and innovation are different. ***Invention*** is finding new products, processes, or ideas, or combining them. Commercializing them results in **innovation**, which we define as *the commercialization of new products, services, processes*, or *ideas.* Innovation is not a one-time event; to be successful, it has to be *continuous*. Apple, one of the most innovative companies, started with the computer, continued with the iPod, the iPhone, the iPad, and the Apple Watch. Similarly, Amazon started with books, continued with the Amazon Reader, and now offers the Amazon Fire that could be a low-cost alternative to the iPad. Typewriters progressed to computers using, for example, Microsoft Word. In the past, television viewers in the United States essentially had to choose from three networks, ABC, CBS, and NBC. Now, they can choose from many cable or satellite providers or "over the top" channels offered directly over the Internet.

Invention is the development or discovery of something new.

Innovation is the enhancement, adaptation, or commercialization of new products, services, or processes.

Product, Service, and Process Innovation

One can distinguish between ***product innovation*** as illustrated by Apple, ***service innovation*** such as Apple's iTunes, and ***process innovation.*** The latter can be exemplified by Toyota, which was able to produce high- quality cars effectively and efficiently.

Incremental and Breakthrough/Disruptive/ Radical Innovation

By **incremental innovation** we mean the use of existing knowledge by making changes or continuous improvements of existing products or services. In other parts of the book, we point out that the Japanese are known for the *kaizen* approach, which is a continuous effort to make products, services, and processes better, more effective and efficient by reducing cost or improving quality. Companies such as Google may have been breakthrough innovators, but then may continue with incremental innovation by introducing new products or services which are not necessarily radical. Other established enterprises may not want to radically change the existing organization or power structure and may opt for incremental innovation.

Incremental innovation is the application of technology to adapt, enhance, or commercialize existing products, services, or processes.

One incremental innovation approach involves *continuous improvement* by using *Six Sigma*, which aims at reducing defects, improve quality, and consequently increase consumer satisfaction. In statistical terms, Six Sigma means a failure rate of 3.4 parts per million. The Six Sigma approach involves the following steps: First, *define* the issue by, for example, listening to customer complaints; second, *measure* the process; third, *analyze* the data by, for example, identifying the cause and effect of a problem; fourth, *improve* the situation by, for example, conducting a brainstorming session; and fifth, *control* through, for example, statistical process control or documenting a process.[3]

Disruptive or breakthrough innovations are new and radical and may use new methods, materials, products, or services. Apple's iPod and iPhone are recent examples. The introduction of the low-cost Swatch in the 1990s disrupted the expensive "watch-as-jewelry" market. Ford's Model T mass-produced car is another illustration of breakthrough innovation from earlier times and digital imaging disrupted the film- based photography market. Innovation can be risky. Michael Treacy reported in the *Harvard Business Review* that breakthrough innovation is risky and may be less effective than incremental innovation.[4] However, Clayton Christensen argued that disruptive technologies might lead to new value propositions that were not earlier accessible.[5]

Disruptive or breakthrough innovations apply technology to develop and commercialize new categories of products, services, or processes that serve new market segments.

The discussion in this chapter highlights some of the innovation issues. More detailed discussions of innovation will follow and mentioned throughout this book.

THE ECOLOGICAL ENVIRONMENT

Managers must take into account the ecological factors in their decision-making. By **ecology** we mean the relationship of people and other living things with their environment such as soil, water, and air. Land, water, and air pollution is of great concern to all people. Land may be polluted by industrial waste such as packaging. Water pollution may be caused by, for example, hazardous waste and sewage. Air pollution can be caused by a variety of sources such as acid rain, vehicle exhaust fumes, and carcinogens from manufacturing processes.

Ecology The relationship of people and other living things with their environment.

A variety of legislation has been passed dealing with solid waste, water, and air pollution. Managers must be keenly aware of these laws and regulations and must incorporate ecological concerns into their decision-making.

In order to protect the environment, European countries developed the ISO 14001 standard to assure that company policies address a variety of public concerns, including pollution prevention and compliance with relevant laws and regulations. Since the adoption of ISO 14001 in 1996, some 10,000 companies had registered by the year 2000. Although the standard had a slow start in the United States, it received a boost when Ford Motor Company certified all its facilities around the world as conforming to ISO 14001.[6] Other companies such as General Motors, IBM, and Xerox followed. The standard was valuable to Ford for reducing water consumption, disposed paint sludge, and disposable packing materials.

More recently, ecological concerns have focused on climate change and global warming. Global warming refers to the increase in temperature of the Earth's atmosphere and oceans that is believed to be caused by the human creation of excess carbon dioxide. The increase in temperature may lead to rising sea levels and an increase in extreme weather.[7] Managers must now consider how their products and production processes impact the earth's climate over the long term and seek ways to minimize any negative consequence of their firms' activities.

www.gm.com

Innovation Perspective

The Greening of GM[8]

"Green and fuel efficient"—these are the key words for success in the car market. General Motors (GM) is late, perhaps too late, in this game. Toyota started working on hybrids in the mid-1990s.

Chairman Richard Wagoner Jr., with a finance background, saw the light around 2005. Oil prices got out of control, global warming became an increasing concern, and fuel economy requirements all driving GM toward change. Actually, GM worked on an experimental electric car, the EV1, several years earlier. This idea was killed and superseded the profitable gas-guzzling SUVs.

In mid-2000, it became clear: go green or die. GM opted for the former with a revolutionary electric car: the Chevrolet Volt.

This is a plug-in hybrid vehicle that combines two electric motors with an internal combustion engine. During the first 25-50 miles, the Volt is an electric-only car, depleting the battery. After that, the engine charges the battery. At higher speeds, the gasoline engine may assist the electric motors. The fuel economy rating is debated because it depends on whether the vehicle is driven for short or long distances. Also, the electric plug-in expenses need to be considered besides the gasoline costs. At any rate, the Volt is an efficient car which reduces fuel costs and carbon emission.

Most rival car companies are also offering fuel efficient, low-carbon emission cars. Toyota has already several hybrids on the market, with the Prius being the most prominent one with a city rating of 51 miles per gallon (mpg), a highway rating of 48 mpg, and a combined rating of 50 mpg. Nissan is offering the Leaf, the 100 percent electric car with no tailpipe emission.

With the competition from Toyota, Nissan, and other carmakers, can financially stretched GM invest greatly into a risky technology with an uncertain prospect for success? What other choices does GM really have? These are some of the consideration the current Chairman and CEO has to consider. The strategy is at a critical point

THE SOCIAL RESPONSIBILITY OF MANAGERS

In the early 1900s, the mission of business firms was exclusively economic. Today, partly owing to the interdependencies of the many groups in our society, the social involvement of business has increased. As pointed out in the model of the systems approach to management in Chapter 1, there are many stakeholders or claimants to the organization. There is indeed a question as to what the social responsibility of business really is. Moreover, the question of social responsibility, originally associated with businesses, is now being posed with increasing frequency with regard to governments, universities, nonprofit foundations, charitable organizations, and even churches. Thus, we are talking about the social responsibility and social responsiveness of all organizations, although the focus of this discussion is on business. Society, awakened and vocal with respect to the urgency of social problems, is asking managers, particularly those at the top, what they are doing to discharge their social responsibilities and why they are not doing more.

Social Responsibility and Social Responsiveness

The concept of social responsibility is not new. Although the idea was already considered in the early part of the 20th century, it received a major impetus with the 1953 book *Social Responsibilities of the Businessman* by Howard R. Bowen, who suggested that businesses should consider the social implications of their decisions.[9] As might be expected, there is no complete agreement on the definition. In a survey of 439 executives, 68 percent of the managers who responded agreed with the following definition: **corporate social responsibility** is "seriously considering the impact of the company's actions on society."[10]

Corporate social responsibility The serious consideration of the impact of the company's actions on society.

A concept that is newer but very similar to social responsibility is **social responsiveness**, which in simple terms means "the ability of a corporation to relate its operations and policies to the social environment in ways that are mutually beneficial to the company and to society."[11] Both definitions focus on corporations, but these concepts should be expanded to include enterprises other than businesses and to encompass relationships within an enterprise. The main difference between social responsibility and social responsiveness is that the latter implies actions and the "how" of enterprise responses. In this discussion, the terms will be used interchangeably.

Social responsiveness The ability of a corporation to relate its operations and policies to the social environment in ways that are mutually beneficial to the company and to society.

Leadership Perspective

Social Responsiveness at Infosys

Sudha Murthy, the wife of the founder and former chairman and CEO of Infosys Narayana Murthy, is known for her philanthropic work through the Infosys Foundation. For example, she initiated that the government schools in Karnataka provide library facilities and computers. She also teaches computer science and is a fiction writer. For her social work, she received the Raja-Lakshmi Award. She was also the first woman engineer at Telco which is now Tata Motors.[12]

In the meantime, more Indian women have been engaged in the workplace.

Arguments For and Against Business Involvement in Social Actions

Although there are arguments for business involvement in social activities, there are also arguments against it (Table 2-1).

TABLE 2-1 Arguments for and against social involvement of business

Arguments *for* social involvement of business

1. Public needs have changed, leading to changed expectations. Business, it is suggested, received its charter from society and consequently has to respond to the needs of society.
2. The creation of a better social environment benefits both society and business. Society gains through better neighborhoods and employment opportunities and business benefits from a better community, since the community is the source of its workforce and the consumer of its products and services.
3. Social involvement discourages government regulation and intervention. The result is greater freedom and more flexibility in decision-making for business.
4. Business has a great deal of power that, it is reasoned, should be accompanied by an equal amount of responsibility.
5. Modern society is an interdependent system and the internal activities of the enterprise have an impact on the external environment.
6. Social involvement may be in the interests of stockholders.
7. Problems can become profits. Items that may once have been considered waste (e.g., empty soft drink cans) can be profitably used again.
8. Social involvement creates a favorable public image. As a result, the firm may attract customers, employees, and investors.
9. Business should try to solve the problems that other institutions have not been able to solve. After all, business has a history of coming up with novel ideas.
10. Business has the resources. Specifically, business should use the talents of its managers and specialists as well as its capital resources to solve some of society's problems.
11. It is better to prevent social problems through business involvement than to cure them. It may be easier to help the hard-core unemployed than to cope with social unrest.
Arguments *against* social involvement of business
1. The primary task of business is to maximize profit by focusing strictly on economic activities. Social involvement could reduce economic efficiency.

2. In the final analysis, society must pay for the social involvement of business through higher prices. Social involvement would create excessive costs for business, which cannot commit its resources to social action.
3. Social involvement can create a weakened international balance of payment situation. The cost of social programs, the reasoning goes, would have to be added to the price of the product. Thus, socially involved companies selling in international markets would be at a disadvantage when competing with companies from other countries that do not have these social costs to bear.
4. Business has enough power, and additional social involvement would further increase its power and influence.
5. Businesspeople lack social skills to deal with the problems of society. Their training and experience are with economic matters and their skills may not be pertinent to social problems.
6. There is a lack of accountability of business to society. Unless accountability can be established, business should not get involved.
7. There is no full support for involvement in social actions. Consequently, disagreements among groups with different viewpoints will cause friction.

Based on a variety of sources, including William C. Frederick, Keith Davis, and James E. Post, *Business and Society*, 6th ed. (New York: McGraw-Hill, 1988), chap. 2.

Today, many businesses are involved in social actions. A good example is the Ben & Jerry ice cream company, which contributes to the conservation of the rainforest. The company also purchases nuts from tribes in the rainforest so that they do not rely on cutting trees for survival. A decision as to whether companies should extend their social involvement requires careful examination of the arguments for and against such actions. Certainly, society's expectations are changing, and the trend seems to be toward greater social responsiveness.

Leadership Perspective

Philanthropy in the Silicon Valley and Expanding Around the World according to Laura Arrillaga-Andreessen[13]

Laura Arrillaga-Andreessen, wife of Marc Andreessen the Netscape Creator,[14] lives in the heart of Silicon Valley near San Francisco. She is surrounded by technology professionals who may have influenced her book *Giving 2.0: Transform Your Giving and Our World* [15] in which she discusses the importance of giving: giving time, sharing experience and skills, giving money, or helping people to access networks. Giving may be a $1 donation or giving your time by volunteering for a cause about which you are passionate. This means, first of all, identifying your goal(s) of giving and then developing a strategy for sharing to satisfy not only local or national needs, but also global causes. This may include, for example, giving to those people affected by the 2010 floods in Pakistan, the 2004 Asian tsunami, the 2010 earthquake in Haiti, or the more recent 2011 earthquake in Japan that caused the tsunami and nuclear reactor damages.

Laura quotes Winston Churchill: “We make a living by what we get; we make a life by what we give.”

Giving is universal, but to be effective and efficient, it should be strategic, that is, giving should be to where it does the most good. This requires reflecting about who you are, what your passion is, and then thinking strategically how you can contribute your time, your money, or your skills. For example, if you work in the human resource department in your company, you probably have interviewing skills; you could share your expertise with an unemployed, job-seeking person by teaching effective interviewing skills, resume writing, or helping a person in conducting Internet job searches. On a national scale, one could be involved in a program that facilitates, for example, microlending-making small loans to low-income entrepreneurs. The repayment rates of these loans have been phenomenal. In short, strategic giving is an idea worth spreading.

Reaction or Proaction?

To live within an environment and be responsive to it does not mean that managers should merely react in the face of stress. Because no enterprise can be expected to react very quickly to unforeseen developments, an enterprise must practice ways of anticipating developments through forecasts. An alert company, for example, does not wait until its product is obsolete and sales have fallen off before coming out with a new or improved product. A government agency should not wait until its regulations are obsolete and discredited before looking for another way to achieve its objectives. No enterprise should wait for problems to develop before preparing to face them. Proaction is an essential part of the planning process.

The Role of the Government

Local, regional, and national governments play an essential role in developing ecosystems for entrepreneurship and innovation. Tax policies that provide incentive for commercial investment can help establish clusters of firms that lead to the development of industries that help ensure employment and competitiveness for regions.

There are also many instances in which social changes can be implemented only by the enactment of legislation. However, many managers in business and elsewhere have found it to their advantage to do something about pressing social problems. For example, many businesses have profited by filtering smokestack pollutants and selling or utilizing these recovered wastes. Some companies have made a profit by building low-cost apartment buildings in economically depressed areas. In other words, contributing to the solution of social problems does not always involve net expenses. But society may need the bludgeoning force of legislation to get improvements underway.

Leadership Perspective

Deng Xiaoping Who Changed China from the Planned Economy Towards a Market Economy[16]

Deng Xiaoping was a statesman, diplomat, and theorist. He has been credited with leading China from a planned economy to a market-driven economy that led to its growth after the Cultural Revolution. He encouraged foreign investment and allowed limited private investment, which resulted in China becoming one of the fastest growing economies today. Deng's idea of moving toward a market economy was:

"Planning and market forces are not the essential difference between socialism and capitalism. A planned economy is not the definition of socialism, because there is planning under capitalism; the market economy happens under socialism, too. Planning and market forces are both ways of controlling economic activity."[17]

When Deng Xiaoping visited Singapore in 1978, he was impressed by the modern, technologically advanced nation that planned its economic development, built its infrastructure, and encouraged foreign investment. Deng considered Singapore's approach as the model for China resulting in what has been called "socialism with Chinese characteristics." Combining the planning techniques with Singapore's developmental approach resulted in economic growth rates of around 9 percent in recent years. China began building new coal mines, modern power grids, nuclear power plants, new roads and highways, and other projects. Much of the economic growth and development attributed to the leadership of Deng Xiaoping!

ETHICS IN MANAGING: AN INTEGRATIVE APPROACH [18]

All persons whether in business, government, university, or any other enterprise are concerned with ethics. In *Webster's Ninth New Collegiate Dictionary*, **ethics** is defined as "the discipline dealing with what is good and bad and with moral duty and obligation." **Business Ethics** is concerned with a systematic study of morals. It strives to provide methods to distinguish between actions and attitudes that are detrimental for business and those that are ethically sound and inspire businesses.

Ethics The discipline dealing with what is good and bad and with moral duty and obligation.

Business ethics is concerned with truth and justice in the context of commercial enterprise

Leadership Perspective

Scandals and Corporate Governance[19]

In July 2002, WorldCom filed the largest bankruptcy claim in U.S. history. While the investors of WorldCom, Global Crossing, and other telecommunication companies were suffering, top managers of many of these companies got rich. Jack Grubman of Citigroup's Salomon Smith Barney seemed to have misled "outsiders," resulting in losses and bankruptcies that could hurt not only investors, but also the U.S. telecommunication industry in the global competition with firms in countries such as South Korea and Japan, which already are technologically ahead of U.S. companies in certain areas.

Corporate scandals such as those of Enron and WorldCom have shaken the confidence of investors. In response to the disclosure of alleged improprieties, the United States initiated new legislation.

Starting from August 2002, chief executive officers (CEOs) and chief financial officers (CFOs) of many of the largest U.S. companies are required to state under oath that to the best of their knowledge the latest financial reports are true. Under the Sarbanes-Oxley law, CEOs and CFOs are required to certify the correctness of the reports to regain the confidence of investors. This legislation also stipulates that subsidized personal loans to executives be banned.

Business Week suggests several ideas for the creation of the ideal corporation, which must be built on integrity, ethics, fairness, and trust.[20] The new corporate model must be more transparent for investors, suppliers, customers, and employees. Performance data need to be accurate so that investors can trust the numbers. Executive pay must be perceived as being fair. The open corporate culture needs to emphasize accountability and employees must feel free to report unethical and unfair practices.

There are widespread misunderstandings about business ethics: Not only are ethical concepts quite often been dismissed in management theory as "soft" factors and quite often as useless chatter, but business ethics according to another prejudicial view are merely some philanthropic efforts by companies.

The more fundamental problem stems from the fact that ethics has usually in theory and teaching not consistently been related to other management disciplines such as economics and finance. Ethical considerations have quite often been rejected right away as related to values and religion. Therefore, a rather isolated academic discipline assumed a kind of a fig leaf status besides simplified management theories focusing on cost cutting, profit maximization, and "efficiency."

The financial crisis between 2007 and 2009 and the numerous corporate scandals have been powerful reminders of an economic system that lacks a necessary ethical framework. Volatility and unpredictability of the market system has been largely underestimated. Therefore, the conventional means of management education have come under fierce criticism due to their narrow-minded approach and for their apparent failure to prevent corporate scandals to happen.

International Perspective

Moving Toward a Global Ethics View?[21]

Throughout the financial crisis, it became clear that the financial architecture reflects a largely outdated postwar model largely dominated by rich nations of the developed countries. Countries such as India and China still lag on the margins along with other developing countries. There is evidence that a decisive factor that provoked such a large financial meltdown has been the subprime crisis in the United States. The crisis might be a reminder that a financial structure that represents in a more appropriate way the globalized world may be better equipped to create a stable financial and economic environment on a global and a local level.

In handling the crisis, it is also evident that countries like China and India proved much more resilient to overcome difficulties and hardships in comparison with their Western counterparts. Therefore, applying the principle of justice in the area of a more globalized financial and economic market means to finally recognize that new dominant economic players such as India and China should be given their well-deserved position within a new financial architecture.

The macroeconomic implications of ethics need also to be analyzed in the way countries like China are becoming more involved in Africa. Are the business activities truly beneficial and in the vital interest of the people or is beneath just another neocolonial style reemerging which abuses natural resources, discriminative hiring, unsafe working conditions, and other issues?

A further element that makes ethics a must is the growing impact of consumer associations in developing countries that closely monitor how a product is produced. In addition, the ethical and unethical behavior of state and business leaders are coming much more under scrutiny.

ETHICAL THEORIES[22]

In organizations, managers compete for information, influence, and resources. The potential for conflicts in selecting the ends as well as the means to the ends is easy to understand, and the question of what criteria should guide ethical behavior becomes acute.

Three basic types of moral theories in the field of normative ethics have been developed. First, the utilitarian theory suggests that plans and actions should be evaluated by their consequences. The underlying idea is that plans or actions should produce the greatest good for the greatest number of people. Second, the theory based on rights holds that all people have basic rights. Examples are the rights to freedom of conscience, free speech, and due process. A number of those rights can be found in the Bill of Rights in the Constitution of the United States. Third, the theory of justice demands that decision makers be guided by fairness and equity as well as impartiality.

Utilitarian theory Plans and actions should be evaluated by their consequences

Theory based on rights All people have basic rights

Theory of justice Decision makers must be guided by fairness and equity as well as impartiality

Theory of justice Decision makers must be guided by fairness and equity as well as impartiality

Institutionalizing Ethics

The issue of business ethics is increasingly addressed in seminars and at conferences.[23] Managers, especially top managers, do have a responsibility to create an organizational environment that fosters ethical decision-making by institutionalizing ethics. This means applying and integrating ethical concepts with daily actions. Theodore Purcell and James Weber suggest that this can be accomplished in three ways: (1) by establishing an appropriate company policy or a code of ethics, (2) by using a formally appointed ethics committee, and (3) by teaching ethics in management development programs.[24] The most common way to institutionalize ethics is to establish a code of ethics; much less common is the use of ethics committees. Management development programs dealing with ethical issues are seldom used, although companies such as Allied Chemical, IBM, and General Electric have instituted such programs.

The publication of a code of ethics is not enough. Some companies require employees to sign the code and include ethics criteria in performance appraisal. Moreover, certain firms connect compensation and rewards to ethical behavior. Managers should also take any opportunity to encourage and publicize ethical behavior. At the same time, employees should be encouraged to report unethical practices. Most importantly, managers must set a good example through ethical behavior and practices.

A **code** is a statement of policies, principles, or rules that guide behavior. Certainly, codes of ethics do not apply only to business enterprises; they should guide the behavior of persons in all organizations and in everyday life.

Code A statement of policies, principles, or rules that guide behavior

Ethical Perspective

Code of Ethics for Government Service

The U.S. federal government has established the following code.[25] Any person in government service should:

1. Put loyalty to the highest moral principles and to country above loyalty to persons, party, or Government department.
2. Uphold the Constitution, laws, and regulations of the United States and of all governments therein and never be a party to their evasion.
3. Give a full day's labor for a full day's pay; giving earnest effort and best thought to the performance of duties.

4. Seek to find and employ more efficient and economical ways of getting tasks accomplished.
5. Never discriminate unfairly by the dispensing of special favors or privileges to anyone, whether for remuneration or not; and never accept, for himself or herself or for family members, favors or benefits under circumstances which might be construed by reasonable persons as influencing the performance of governmental duties.
6. Make no private promises of any kind binding upon the duties of office, since a Government employee has no private word that can be binding on public duty.
7. Engage in no business with the Government, either directly or indirectly, which is inconsistent with the conscientious performance of governmental duties.
8. Never use any information gained confidentially in the performance of governmental duties as a means of making private profit.
9. Expose corruption wherever discovered.
10. Uphold these principles, ever conscious that public office is a public trust.

Simply stating a code of ethics is not enough to ensure compliance, and the appointment of an ethics committee, consisting of internal and external directors, is considered essential for institutionalizing ethical behavior.[26] The functions of such a committee may include (1) holding regular meetings to discuss ethical issues, (2) dealing with "gray areas," (3). communicating the code to all members of the organization, (4) checking for possible violations of the code, (5) enforcing the code, (6) rewarding compliance and punishing violations, (7) reviewing and updating the code, and (8) reporting activities of the committee to the board of directors.

Factors that Raise Ethical Standards[27]

The two factors that raise ethical standards the most, according to the respondents in one study, are (1) public disclosure and publicity and (2) the increased concern of a well-informed public. These factors are followed by government regulations and by education to raise the professionalism of business managers.[28]

For ethical codes to be effective, provisions must be made for their enforcement. Unethical managers should be held responsible for their actions. This means that privileges and benefits should be withdrawn and sanctions should be applied. Although the enforcement of ethical codes may not be easy, the mere existence of such codes can increase ethical behavior by clarifying expectations. On the other hand, one should not expect ethical codes to solve all problems. In fact, they can create a false sense of security. Effective code enforcement requires demonstration of consistent ethical behavior and support from top management. Another factor that could raise ethical standards is the teaching of ethics and values in higher education institutions.

Guidelines for International Business Ethics with a Focus on China[29]

With increased business activities in China, decision makers search for guidelines. Stephan Rothlin, in his book *18 Rules of International Business Ethics, Becoming a Top-Notch Player*, aims not only to assist managers to be ethical, but also to be successful. Although the book was written primarily for Chinese managers (the text in the book is side by side in English and Chinese), the concepts certainly have wider applications. The guides are discussed in four parts dealing with international business ethics, labor conditions, justice, and virtue ethics. It is clear that those guides focus on many current issues in China as well as in other countries.

Part 1 International Business Ethics

1. If you strive to understand the values of different cultures, you will find common points

2. If you analyze the facts, you will realize that honesty and reliability benefit you
3. If you analyze case studies from different perspectives, you will discover the benefits of fair plan

Part 2 Labor Conditions

4. Respecting your colleagues is the smartest investment you can make
5. To increase productivity, provide safe and healthy working conditions
6. To inspire trust, make your performance transparent
7. Your loyal dissent can lead your institution in the right direction
8. Downsizing your labor force is only beneficial when you respect each stakeholder

Part 3 Areas of Justice

9. To establish your brand name, act as a fair competitor
10. Reduce the gap between the rich and poor by developing a new social security system
11. If you act against discrimination, you will increase your productivity and profitability
12. If you protect intellectual property, all stakeholders will receive their due share
13. Ongoing changes in information technology require new forms of loyalty
14. Your public relations strategy will only secure your reputation if it witnesses your drive for quality and excellence
15. Your economic achievements will only stand on firm ground if you diminish corruption
16. Long-term success urgently calls you to constantly care for the environment

Part 4 Toward Virtue Ethics

17. To become a refined player, sharpen your discernment and cultivate good manners

18. Care for your business by caring for society

China's fast economic growth results in increased business activities. Business leaders search for guidelines to operate not only in their country, but compete globally. These guides may assist Chinese managers as well as those in other countries in their decision-making.

Whistle-blowing

Another way of encouraging ethical corporate behavior is through **whistle-blowing**, which means making known to outside agencies unethical company practices. *Black's Law Dictionary* defines a whistleblower as "an employee who refuses to engage in and/or reports illegal or wrongful activities of his employer or fellow employees." There is even a whistle-blower Web site that discusses whistle-blowing issues, including legal matters and protection.[30] This whistle-blowing center is a nonprofit organization that helps enforce environmental laws and works for the accountability of business and government organizations. Its primary objective is to protect and defend persons who disclose actions harmful to the environment and public health.

Whistle-blowing Making known to outside agencies unethical company practices

As we will discuss later in this book in greater detail, Roger Boisjoly, an engineer at Morton Thiokol, the contractor for the rocket booster in the Challenger space shuttle, pointed out the problem with the O-rings, which became ineffective at low temperatures. His fears and concerns were largely ignored by the management and eventually led to the Challenger disaster. Another example is that of Mr. Ruud, a whistle-blower, who was fired from his job at the nuclear plant operator Westinghouse Hanford Company. He sued the company and was awarded by a federal judge an entitlement for lifetime front pay.[31] In the United States, legislation now gives greater protection to government whistle-blowers. There is some evidence that after the September 11, 2001, World Trade Center suicide attacks more employees have come forward to disclose security issues.[32]

Differing Ethical Standards between Societies[33]

Ethical as well as legal standards differ, particularly between nations and societies. For example, certain nations permit privately owned companies to make monetary contributions to political parties, campaigns, and candidates (which is prohibited in the United States). In some countries, payments to government officials and other persons with political influence to ensure favorable handling of a business or other transactions are regarded not as bribes but as payments for services rendered. In some cases, payments made in order to win a contract are even looked upon as a normal and acceptable way of doing business. Consider the Quaker Oats Company, which faced a situation in which foreign officials threatened to close its operation if the demand for "payouts" was not met; or a company may find itself in a predicament where its plant manager's safety will be in jeopardy if payoffs are not made.[34]

The question facing responsible foreign business managers is: What ethical standards should they follow?[35] For example, *guanxi*, which pertains to informal relationships and exchange of favors, influences business activities in China and East Asia. There is no question of what to do in similar situations in the United States: executives have to refuse the suggestion of putting money in a "paper bag." But in a country where such practices are expected and are common, American executives are faced with a difficult problem. With the passage of laws by the U.S. Congress and the adoption of regulations by the Securities and Exchange Commission, not only must American firms report anything that could be called a payoff, but also anything else that can be construed as a bribe is unlawful. The Foreign Corrupt Practices Act (FCPA) Antibribery Provisions state: "U.S. firms seeking to do business in foreign markets must be familiar with the FCPA. In general, the FCPA prohibits corrupt payments to foreign officials for the purpose of obtaining or keeping business."[36] Thus, the United States has attempted to export its standards for doing business to other countries, which can improve ethical standards abroad.

www.quakeroats.com
www.sec.gov

International Perspective

Truth in Advertising Regulations Differ in Various Countries[37]

Advertising in China is getting tougher. Proctor & Gamble (P&G) claimed that its Pantene product makes the hair 10 times stronger. Government authorities demanded proof, which was difficult to show through objective studies. Consequently, P&G withdrew the advertising. In the past, advertisers in China were relatively free in making claims for their products. Yet, a 1995 Chinese law that states that statistical claims should be accurate and true had rarely be enforced.

Advertising regulations differ among countries. In the United States, for example, the Federal Trade Commission provides an oversight. Moreover, competitors also watch for and expose questionable claims of their adversaries. In most European countries, industry is guided by self-regulation as well as strong governmental regulation.

TRUST AS THE BASIS FOR CHANGE MANAGEMENT

Managers are bombarded with new managerial concepts and old ones often are disguised by new terminology-all designed for coping with managerial change demanded by global competition, customer expectations, and the need to respond quickly to environmental changes. Although various approaches to managing change in the New Age will be discussed throughout the book, one often overlooked concept is trust. Professor Salvatore Belardo points out that trust is at the center of communication, collaboration, and the willingness to change.[38] Traditionally, the concept of trust is equated with integrity, loyalty, caring, and keeping promises in the relationships between and among individuals. But Belardo points out that trust should go beyond individual relationships and extend to the organization through the creation of a culture of trust that transcends individual leadership. Leaders come and go; the organization continues. For example, David Packard of Hewlett-Packard left as his legacy the HP Way, a philosophy that emphasizes a code of ethics, which permeates the whole organization and continues after his death.

www.hp.com

In this book, many managerial concepts, principles, theories, and practices will be introduced for managing change in the New Age. But, an enterprise is essentially a human organization, which functions well only when it is based on trust, ethical behavior, and the recognition of human dignity.

SUMMARY

Managers operate in a complex environment. They are affected by—and to some extent influence—the environment. Managers operate in a pluralistic society in which many organized groups represent various interests.

In their decision-making, managers must consider the external environment. Technology provides many benefits but also creates some problems. Increasingly, firms are considering the impact of managerial actions on the ecological environment. Many business corporations and other organizations are making serious efforts to establish an environment that is beneficial to individuals, business, and society.

Corporate social responsibility requires that organizations consider seriously the impact of their actions on society. Similarly, social responsiveness is relating corporate operations and policies to the social environment in ways that are beneficial to both the company and society. Determining the appropriate relationships between various types of organizations and society is not an easy task, and one can make arguments for and against business involvement in social activities. However, there is now a general recognition that the responsibility of business goes beyond profit maximization.

Ethics deals with what is good and bad as well as with moral duty and obligation. There are three moral theories in normative ethics: the utilitarian theory, the theory based on rights, and the theory of justice. Some authors have suggested that businesses institutionalize ethics and develop a code of ethics. There are also other factors that raise ethical standards, including whistle-blowing. Managers have to make difficult choices when the standards differ in other societies. Trust is the foundation for human relations and modern management approaches.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Pluralistic society
- Technological environment
- Invention and innovation
- Ecological environment
- Corporate social responsibility
- Social responsiveness
- Arguments for and against social involvement of business
- Government's role in enforcing ethical behavior
- Ethics
- Ethics in managing: An integrative approach
- Utilitarian theory of ethics

- Ethical theory based on rights
- Ethical theory of justice
- Institutionalizing ethics
- Code of ethics
- Factors raising ethical standards
- Eighteen guides of international business ethics
- Whistle-blowing
- Differing ethical standards
- Trust as a critical factor for change
- Digital revolution

FOR DISCUSSION

1. Why is the environment external to an enterprise so important to all managers? Can any manager avoid being influenced by the external environment?
2. Identify the elements of the external environment that are likely to be the most important to each of the following: a company president, a sales manager, a production manager, a controller, and a personnel manager.
3. What are the major social responsibilities of business managers? Of public administrators? Have these responsibilities changed over the years? How?
4. If you were the chief executive of a large corporation, how would you institutionalize ethics in the organization?
5. What ethical codes would you recommend for your university, your class, and your family? How should these codes be enforced?

EXERCISES/ACTION STEPS

1. Consider an organization that you have worked for in the past. Discuss two or three aspects of the external environment that impacted that organization for better or worse.
2. Consider an ethical dilemma you faced in the past. How did you address it then? What would you do differently today?
3. Revisit your LinkedIn Profile. Ensure each organization you worked for is listed along with three to four bullet points of achievements you made with each organization.

INTERNET RESEARCH

1. Search the Internet for “business ethics” and select two articles for class discussion.
2. Cars do pollute the air. Search the Internet for “ecology” and “cars” to find out what car makers are doing to reduce pollution.
3. Search the Internet for “knowledge age” and describe three developments that might affect you or provide opportunities for you.

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CHAPTER 3

Global, Comparative, and Quality Management

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Discuss the nature and purpose of international business and multinational corporations
2. Understand country alliances that form trade blocs
3. Appreciate cultural and country differences and their implications for managing
4. Recognize the differences in managing in selected countries
5. Describe the managerial practices in Japan and Theory Z
6. Understand the factors that influence the competitive advantages of nations, according to Michael Porter
7. Recognize the major contributions to quality management and describe the Baldrige quality award, ISO 9000, and the European Quality Award

The previous chapter focused on the external factors that are present, especially in the domestic environment. The constraining factors on managing are likely to be more severe for international firms. Executives operating in a foreign country need to learn a great deal about the country's educational, economic, legal, and political systems, and especially its sociocultural environment.

The first section in this chapter deals with international management and the role of multinational corporations (MNCs). Then, the environmental impact on managing in selected countries is examined, with special attention given to Japanese managerial practices. Finally, the competitive advantage of nations and quality management are discussed.

INTERNATIONAL MANAGEMENT AND MULTINATIONAL CORPORATIONS

The study of **international management** focuses on the operation of international firms in host countries. It is concerned with managerial issues related to the flow of people, goods, and money, with the ultimate aim of managing better in situations that involve crossing national boundaries.

International management focuses on the operation of international firms in host countries.

The environmental factors that affect domestic firms usually are more critical for international corporations operating in foreign countries. As illustrated in Table 3-1, managers involved in international businesses are faced with many factors that are different from those of the domestically oriented firms. They have to interact with employees who have different educational and cultural backgrounds and value systems, and also cope with different legal, political, and economic factors. These environments understandably influence the way managerial and enterprise functions are carried out.

TABLE 3-1 Managing domestic and international enterprises

Managerial function	Domestic enterprise (in industrialized country)	International enterprise

Planning		
• Scanning the environment for threats and opportunities	• National market	• Worldwide market
Organizing		
• Organization structure	• Structure for domestic operations	• Global structure
• View of authority	• Similar	• Different
Staffing		
• Sources of managerial talent	• National labor pool	• Worldwide labor pool
• Manager orientation	• Often ethnocentric	• Geocentric
Leading		
• Leadership and motivation	• Influenced by similar culture	• Influenced by many different cultures
• Communication lines	• Relatively short	• Network with long distances
Controlling		
• Reporting system	• Similar requirements	• Many different requirements

The Nature and Purpose of International Business

Although businesses have been conducted on an international scale for a long time, international businesses gained greater visibility and importance because of the growth of large MNCs. International businesses engage in transactions across national boundaries.

These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries.

The interaction of a firm with the host country can take many forms (Figure 3-1). One is the exportation of goods and services. Another is a licensing agreement for producing goods in another country.

International businesses engage in transactions across national boundaries.

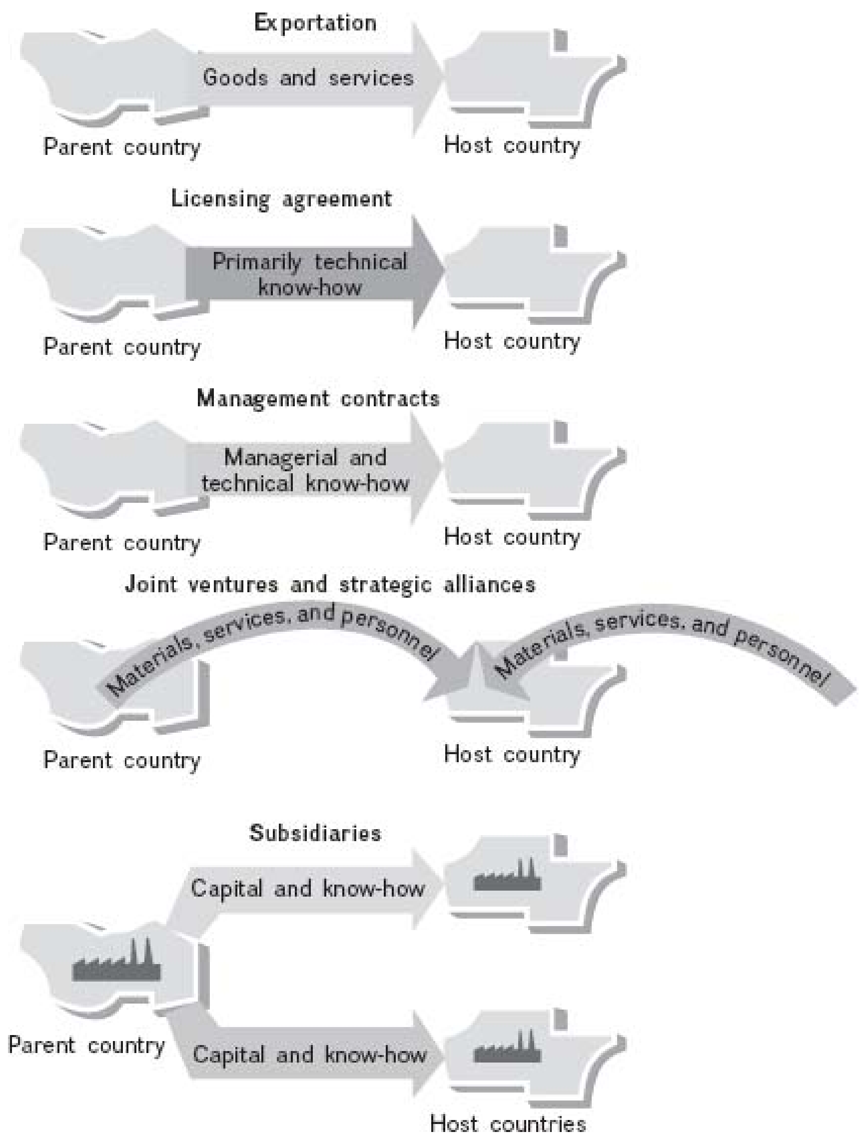

FIGURE 3-1 Forms of international business

The company may also engage in management contracts for operating foreign companies. Still another form of interaction is a joint venture with a firm in the host country. One form of joint venture is the strategic alliance that is often formed in order to expand geographically (airlines do this extensively) or to expand the market for products or services. Finally, multinationals may set up wholly owned subsidiaries or branches with production facilities in the host country. Thus, in developing a global strategy, an international firm has many options.

Contact between the parent firm and the host country is affected by several factors; some are unifying, while others can cause conflicts.

Unifying effects

Unifying influences occur when the parent company provides and shares technical and managerial know-how, thus assisting the local company in the development of human and material resources. Moreover, both partners may find it advantageous to be integrated into a global organizational structure. Whatever the interaction, organizational policies must provide for equity and result in benefits for both the parent firm and the local company. Only then can one expect a long-lasting relationship.

Innovation Perspective

Potentials for conflict

Many factors can cause conflicts between the parent firm and the host country. Nationalistic self-interest may overshadow the benefits obtained through cooperation. Similarly, sociocultural differences can lead to a breakdown in communication and subsequent misunderstandings. Also, a large multinational firm may have such overpowering economic effects on a small host country that the latter feels overwhelmed. Some international corporations have been charged with making excessive profits, hiring the best local people away from local firms, and operating contrary to social customs. International corporations must develop social and diplomatic skills in their managers to prevent such conflicts and to resolve those that unavoidably occur.

Multinational Corporations

MNCs are large companies that produce and sell goods and services in various countries. They generally have their headquarters in one country but operate in many countries. MNCs are sometimes criticized for operating in countries with low environmental standards.

MNCs have their headquarters in one country but operate in many countries.

International Perspective

Fortune's 500 Largest Global Companies

Fortune magazine annually identifies the 500 largest global companies. The 10 largest corporations ranked by revenues in 2013 were:

1. Royal Dutch Shell
2. Walmart Stores
3. Exxon Mobile
4. Sinopec Group (one of China's largest oil and gas producer)
5. China National Petroleum (also one of China's biggest oil and gas producers)
6. BP
7. State Grid (China's largest power distributor)
8. Toyota Motor
9. Volkswagen
10. Total French oil company).[1]

Three of the 10 companies are Chinese.

From ethnocentric to geocentric orientation[2]

In its early stages, international business was conducted with an **ethnocentric** outlook, with the orientation of the foreign operation based on that of the parent company.[3] The **polycentric** attitude, on the other hand, is based on the notion that it is best to give the foreign subsidiaries, staffed by local nationals, a great deal of managerial freedom. It is assumed that local nationals understand the local environment best. A **regiocentric** orientation favors the staffing of foreign operations on a regional basis. Thus, a European view may be composed of British, French, German, Italian, and other European influences. The modern MNC has a **geocentric** orientation. This means that the entire organization is viewed as an interdependent system operating in many countries. The relationships between headquarters and subsidiaries are collaborative, with communication flowing in both directions. Furthermore, key positions are filled by managers of different nationalities. In short, the orientation of the MNC is truly international and goes beyond a narrow nationalistic viewpoint.

Ethnocentric orientation The style of the foreign operations is based on that of the parent company.

Polycentric orientation The foreign subsidiaries are given a great deal of managerial freedom.

Regiocentric orientation The foreign operations are staffed on a regional basis.

Geocentric orientation The entire organization is viewed as an interdependent system operating in many countries.

Advantages of multinationals

MNCs have several advantages over firms that have a domestic orientation. Obviously, the MNC can take advantage of business opportunities in many different countries. It can also raise money for its operations throughout the world. Moreover, it benefits by being able to establish production facilities in countries where its products can be produced most cost-effectively and efficiently. Companies with worldwide operations sometimes have better access to natural resources and materials that may not be available to domestic firms. Finally, large MNCs can recruit managers and other personnel from a worldwide labor pool.

Challenges for multinationals

The advantages of multinational operations must be weighed against the challenges and risks associated with operating in foreign environments. One problem is the increasing nationalism in many countries. Years ago, developing countries lacked managerial, marketing, and technical skills. Consequently, they welcomed MNCs. But the situation is changing, with people in developing countries also acquiring those skills. In addition, countries have not only become aware of the value of their natural resources, but have also become more skilled in international negotiations. Finally, MNCs must maintain good relations with the host country, a task that may prove difficult in some countries because their governments frequently change and corporations must deal with and adapt to these changes.

Entrepreneurial Perspective

Interview with Bryant Tong, Venture Capitalist Partner with Nth Power, on Cultural Differences and Entrepreneurial Management[4]

Bryant Tong is a venture capitalist partner with Nth Power in San Francisco, California. Nth Power is a highly regarded venture capital firm that focuses on high potential investments in the global energy industry. The company was founded in 1997 and has $420 million under management in four funds. The financing that Nth Power provides to its portfolio firms comes from organizations around the world. Bryant Tong joined Nth Power in 2001. Previously, Bryant was founder, president, and CEO of Pacific Venture Capital, LLC, the venture capital arm of the PG&E Corporation. Since joining Nth Power, he has led its investments in Accelergy Corporation, NanoGram Corporation, Microposite, Inc., and Arxx Corporation, and serves on each of these companies' boards.

We asked Bryant how cultural differences manifested themselves in his business, given the international nature of the investors in Nth Power's funds. Mr. Tong indicated that expectations and styles seemed much more subject to individual characteristics rather than cultural ones. He continued, stating that investors, regardless of cultural background, expect financial returns on their invested capital, and it is this unifying expectation that supersedes any cultural differences.

From Multinational to Global or Transnational Corporations

Just operating in different countries is not enough for large corporations nor is the establishment of manufacturing plants in several countries (as Exxon and General Motors have done) sufficient to be competitive in the world market. The shift is toward the **global or transnational corporation**, which views the whole world as one market. However, this means that a corporation also has to adapt to national and even local needs.

Global or transnational corporations view the whole world as one market.

Domestic markets have become too small. Developing a drug may take more than 10 years and may cost several hundred million dollars. To recover the costs requires selling the drug in a world market. Moreover, global companies have to keep abreast of technological developments around the world. Ford Motor Company decided in the latter half of the 1980s to become a global corporation. Previous attempts to build the "world car" (named the Escort) were not very successful. However, the use of modern communication technology, such as teleconferencing, establishes now a much closer link between Ford's headquarters and its European operations. While Ford was aiming at becoming a global corporation, it had no plants in Japan. To compensate for this void, Ford bought a 25 percent share in Mazda, which was later increased to 33.4 percent. After Ford gained a controlling interest, Henry Wallace was appointed president, the first foreigner to lead a major Japanese firm.[5] Moreover, the company has another project with Nissan in Japan that designed the minivan built by Ford and marketed as the Villager and as the Quest that is sold by Nissan dealerships.

www.exxon.com
www.gm.com

While many firms are aiming at becoming global, only a few have really done so. It requires developing products with the whole world in mind, especially the markets in North America, Asia, and Western Europe. Similarly, strategic decisions must take into account the whole world, but tactics must be adapted to the national and local environments. In staffing, opportunities must be opened for nonnationals to move into upper management ranks. In countries where the global corporation cannot enter, strategic alliances may need to be formed with local companies.

Research studies have shown that international expansion by new venture firms may enhance the viability of these companies.[6] This is because of the learning that will come from international expansion, which can then be incorporated back into the firm that will aid the new venture in developing a sustainable competitive advantage. Thus, if resources are available, expansion into foreign markets may allow for increases in knowledge along with increases in sales and thus lead to greater success.

Entrepreneurial Management in the Silicon Valley

Some say Silicon Valley is a mindset rather than a place. Perhaps, this is the case, but this mindset originated in a place that we still refer to as Silicon Valley. Geographically, the place Silicon Valley is typically thought to encompass the region inclusive of (San Jose through Palo Alto) in the southern end of the San Francisco Bay Area. It has practically spread its physical as well as its intellectual borders to include most of the San Francisco Bay Area and beyond today. The technology prowess and influence of the Silicon Valley mindset and infrastructure have created an indelible mark on the tenor of the region.

What is the Silicon Valley mindset? Look at any of the numerous local calendars of business and technology events in the Bay Area and it becomes apparent that Silicon Valley is about confidence, vision, and hope mixed with science, engineering, and salesmanship. It is about seeing around the corner or at least convincing others that you can. It is about leadership and showmanship and brilliance.

As many would-be actors flock to Hollywood and New York City to pursue dreams of stardom, starry-eyed entrepreneurs come to Silicon Valley to build their dreams into entrepreneurial successes. Silicon Valley attracts brilliance and moxy, and provides the resources and expertise to mold gifted bravado into sustainable growth enterprises. Whether it is leaving Harvard to grow a social network website in Palo Alto or crossing the Atlantic or Pacific to study engineering, science, or business knowing that opportunity lurks around the corner, Silicon Valley attracts the brightest and the boldest and gains with each new ambitious person. As a mindset, Silicon Valley can be learned, but the mindset can only be learned well by being in Silicon Valley the place.

COUNTRY ALLIANCES AND ECONOMIC BLOCS

At one time, countries in a region were competing against each other (and they still do). But now, countries are forming regional alliances that have regions compete with each other. Examples are the European Union, the North American Free Trade Agreement

(NAFTA), the Association of Southeast Asian Nations (ASEAN), and Mercosur.

European Union

Europe in 1992 marked the completion of the first stage of European economic ties. The European Community (EC) 1992 program caused dramatic shifts in economic power. Some saw the new program as the New Europe, while others, especially outsiders, saw it as a fortress that could provide serious challenges to other countries, including the United States. In order to compete effectively, North American and Asian countries prepared for the New Europe by forming NAFTA and ASEAN.

The European Commission worked on some 300 legislative actions for removing trade barriers and creating an internal market. The new measures were intended to increase market opportunities, escalate competition within the EC, and boost competition from companies outside the EC. The abolition of transnational trade restrictions and the relaxation of border controls had a considerable impact on the U.S. companies doing business in Europe. Moreover, strong European companies have become formidable competitors in the U.S. market, as illustrated by Siemens, the German global company.

www.siemens.com

The objective of Europe 1992 was to create a single market through the removal of trade barriers and through free movement of goods, people, service, and capital. The changes go beyond economic interests and encompass many social changes as well. Educational qualifications, for example, are also affected. The Council of Ministers submitted a directive that recognizes diplomas of higher education across national boundaries, making it easier for professionals to work in different countries. Then, it is clear that the EC is more than an economic community; it is a state of mind with political power.

The original EC 1992 (which later became the European Union) consisted of 12 member nations: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom. It expanded in 1995 to include Austria, Finland, and Sweden. Since then, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia have been admitted.

www.europa.eu.int

North American Free Trade Agreement and Other Latin American Free Trade Blocs[7]

In 1994, NAFTA, which included agreements among the United States, Canada, and Mexico, went into effect. Since then, trade among those countries has increased greatly. The objectives of NAFTA are to eliminate trade barriers and facilitate cross-border movements of goods and services, promote fair trade, increase investment opportunities, protect intellectual property, provide for resolution of disputes, and present opportunities to improve the benefits of this agreement. The agreement covers a variety of areas such as market access, rules governing the origin of goods, customs procedures, energy, agriculture, and measures to be taken in emergencies.

www.nafta-sec-alena.org

Other Latin American and Caribbean countries have also formed their own trade blocs. Argentina, Brazil, Bolivia, Chile, Paraguay, and Uruguay are members of the Mercosur group.[8] The European Union has extensive trade with Mercosur members, which was further strengthened by the Fifth Round of Association negotiations held in July 2001. In addition, the Caribbean and Central and South American countries consider reductions in trade barriers through the Free Trade Area of the Americas (FTAA), which some consider an extension of NAFTA.

www.mercosur.org
www.ftaa-alca.org

These trade agreements, however, do not go unchallenged, as shown by the protests at World Trade Organization (WTO) meetings. Critics see them as benefiting only developed nations.

Association of Southeast Asian Nations[9]

The 10 countries of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam formed a trading bloc that will increasingly counter NAFTA and the European Union not only economically, but also politically.

www.aseansec.org

During the ASEAN summit conference in October 2003 in Bali, the leaders discussed political security, sociocultural cooperation, and economic issues with the leaders of China, Japan, India, and South Korea. Also, ASEAN economic ministers meet frequently to discuss economic issues and strategies. The 35th such meeting was held in Phnom Penh in September 2003. The following month, ASEAN ministers held the inaugural meeting on culture and arts in Kuala Lumpur, Malaysia. The goal of the meeting was to improve cooperation among ASEAN countries, enhance understanding among their people, and promote a regional identity. More recently, the countries also began to cooperate in fighting terrorism. Eventually, the ASEAN alliance could rival NAFTA and the European Union.

India's Role in the World Economy

Geographically, India is the seventh largest country ranking second in the number of people after China. In contrast to China, India is a democracy with some 1.2 billion people and the second largest labor force. India is the 12th largest economy. It is estimated that by 2025

India's market will be surpassing the consumer market in Germany.[10] Despite the economic growth, India still has a high poverty and illiteracy level.[11] In 1947, India became independent from the British rule followed by a new constitution in 1950. India plays an increasing role in the WTO, in the ASEAN, and in the South Asian Association for Regional Cooperation (SAARC).

Leadership Perspective

Manmohan Singh, Prime Minister of India[12]

As finance minister, Manmoham Singh opened India to the world by carrying out the economic reforms in 1991. The American *Newsweek* magazine described him as "the leader other leaders love."[13]

When Singh became the finance minister in 1991, the fiscal deficit was over 8 percent of the gross domestic product. Later, as prime minister, Singh focused on economic policy favoring globalization, health care, and education by opening, for example, several Indian Institutes of Technology. He also paid attention to security and home affairs.

The foreign policy included several initiatives such as ending the border dispute with China. The developing good relations resulted in China becoming the second most important trading partner of India. Similarly, Singh strengthened the ties with the United States, signing the civilian nuclear agreement with then President Bush. This agreement was followed by Mr. Singh being invited by President Obama to an official White House visit. Singh generally projects a favorable public image, although the opposition considers him weak. Nevertheless, Singh is perceived by the world as a global leader.

INTERNATIONAL MANAGEMENT: CULTURAL AND COUNTRY DIFFERENCES[14]

It is interesting to know some of the differences in managerial practices. A comprehensive study by Geert Hofstede provides a good framework for studying cultural differences between countries. Our discussion will focus on selected countries. It is illustrative rather than comprehensive and is based on generalizations. We have to bear in mind that there are, for example, great differences between the managers in any country. Furthermore, a society is not static and changes do occur over time. For instance, the traditional authoritarian style of German managers is slowly giving way to a more participative approach.

Behaviors in Different Cultures[15]

The study by Geert Hofstede, a Dutch researcher, found that a country's culture impacts on the behavior of employees. In his initial study of more than 110,000 people, he identified four dimensions and later added a fifth. They are (1) individualism versus collectivism, (2) large versus small power distance, (3) uncertainty tolerance versus avoidance, (4) masculinity versus femininity or aggressive versus passive goal behavior, and (5) short-term versus long-term orientation. The behaviors in the five dimensions are summarized in Table 3-2.

TABLE 3-2 Five dimensions of behavior

Individualism	Collectivism
People focus on their own interests and the people close to them. Tasks more important than relationships.	Emphasis on the group, with group support expected. Relationships more important than task orientation.
Large power distance	**Small power distance**
Society accepts unequal distribution of power. Respect for authority. Emphasis	Society less accepting of power. Employees more open to the idea of

on titles and ranks. Subordinates expect to be told what to do. Centralization emphasized.	dialogue with their superior. Less emphasis on authority, titles, and ranks. Inequality minimized. Decentralization emphasized.
Uncertainty tolerance	**Uncertainty avoidance**
People accept uncertainty and are open to risk taking. Willing to take risks.	Afraid of ambiguity and uncertainty. Structure and formal rules preferred.
Masculinity*	**Femininity**
Aggressive and assertive behavior. Emphasis on material things, success, and money.	Relationship-oriented. Quality of life favored. Concern for the welfare of others; caring. Emphasis on modesty.
Long-term orientation	**Short-term orientation**
Characterized by hard work and perseverance. Savings-driven.	Less emphasis on hard work and perseverance. Consumption-driven.

* Some authors prefer to use the terms *quantity versus quality of life* or *aggressive versus passive goal orientation* instead of *masculinity versus femininity*, the terms Hofstede used originally.

The results of Hofstede's research showed that, for example, individualism prevailed in the United States, Australia, Britain, and Canada. In contrast, collectivism prevailed in countries such as Guatemala, Ecuador, and Panama. Among the 50 countries studied, India ranked 21, close to the Japanese ranking (22/23). On the other hand, Hong Kong, Singapore, Thailand, and Taiwan ranked between 37 and 44, indicating a tendency toward collectivism.[16] On the masculinity/femininity index, Japan, Austria, Italy, and Switzerland ranked high, while Sweden, Norway, the Netherlands, and Denmark ranked low, meaning that these countries are skewed toward feminism.[17]

These findings suggest that managers need to understand the cultural environments and their implications in order to be successful in the country in which they do business. We shall now discuss the management styles in selected countries.

France: *Le Plan* and the *Cadre*

In France, government planning on a national scale (legal-political environment factor) helps coordinate the plans of individual industries and companies (managerial function of planning). The government's aim is to utilize most effectively the country's resources and to avoid expansion in uneconomic areas. Although government planning—which is also extended to regional areas—is carried out by relatively few but competent people, other government departments, employers' organizations, unions, and consumers provide cooperation and assistance.

At times, the plan becomes a global strategy helping specific industries. For example, the government attempts to integrate the electronics industry into a whole so that it can overcome its weaknesses in information processing, consumer electronics, microelectronics, and automation. To implement the strategy, the government plans to support several national projects, such as speech synthesis, mini- and microcomputers, and mainframe computers. Clearly, there is a close relationship between government planning and firms, especially those that are owned and directly aided by the government.

The heavy involvement of government in economic and social activities resulted in a large civil service with some 4.5 million workers.[18] Civil servants have advantages over private-sector workers: higher pay, shorter hours, more holidays, better pension, more bonuses, almost complete job security, and other perks. In France, in contrast to other European countries, the government workforce grew some 20 percent between 1979 and 1999 so that about one in four French workers received their pay from the government. It is no surprise then that many French people would like to become civil servants or "functionaries."

Jean-Louis Barsoux and Peter Lawrence noted not only the close relationship between government and industry, but also the impact of the elite universities, the Grandes Ecoles, on forming the French managerial mind, which is considered essential for managing in both government and business organizations.[19] These schools supply the *cadre*, the managerial elite. Moreover, the schools' connections are vital for managerial success. What are valued in these managers are analytical ability, independence, and proficiency in synthesizing facts. While written communication is considered very important, oral communication is de-emphasized. These managers exhibit intellectual ability rather than action. Rationality, problem solving, and numerical analysis are important for obtaining high managerial posts in government as well as in business. Indeed, it is not unusual for managers to work for both alternately.

The French managerial model also has drawbacks. It may limit managers in dealing with nonquantifiable and "nonrational" data and in responding quickly to changes in the environment, and it may not result in the selection of the best managers because school ties may be more important than performance. Although the managerial characteristics may also be limiting in terms of obtaining a global outlook, French managers, in general, are quite supportive of the European Union. They see it as an opportunity to restructure the New Europe.

Germany: Authority and Codetermination

In the past and to a lesser extent today, the German cultural environment favored reliance on authority in directing the workforce, although it was often benevolent authoritarianism (managerial function of leading). Even today, while managers may show concern for subordinates, they also expect obedience. In 1951, a law was passed that provided for **codetermination**, which requires labor membership in the supervisory board and the executive committee of certain large corporations. Furthermore, a labor director is elected as a member of the executive committee. This position is a difficult one. Labor directors supposedly must represent the interests of the employees and at the same time must make managerial decisions that are in the best interest of the enterprise.

Codetermination requires labor membership in the supervisory board and the executive committee of the corporation.

Selected Factors Influencing Managing in Other Western Countries

Managing in Australia is influenced by the country's moralistic stance and its emphasis on political and social values, achievement, and risk taking.

Italian managers operate in an environment of low tolerance for risks. Italians are very competitive, but at the same time they like group decision-making.

Management in Austria (and Germany) is characterized by selfrealization and leadership. Independence and competitiveness are valued. Tolerance for risk taking is rather low.

In Britain, job security is important and so are resourcefulness, adaptability, and logic. Individualism is also highly valued.

Leadership Perspective

Is There a European Management Model?[20]

Managers in European countries manage in different ways. Yet, there are some commonalities, as interviews with top managers from European firms found:

- European managers think of themselves as being more people-oriented than American managers are.
- A great deal of negotiation takes place within European firms, such as between management and workers or unions and between headquarters and subsidiaries. The practice of codetermination in large German firms may be an illustration of such extensive negotiations. European managers perceive the American style as more top-down.
- Europeans also have developed great skills in managing international diversity. Managing across borders is achieved more through people than through structures and

procedures. The ability of most European managers to speak several languages facilitates the "people approach."

- European managers operate between the extremes of short-term profit orientation (of American managers, as perceived by European managers) and the long-term growth orientation of Japanese managers.

European managers, on the other hand, have adopted many managerial techniques from the Americans, and they also could learn from American entrepreneurship. In the global environment, with free flow of information and with MNCs operating in many countries, there may be some convergence of managerial approaches.

Korean Management

Japanese management receives a great deal of attention, partly because of the economic success of Japanese companies in the past. The Republic of Korea (South Korea, referred to here as Korea) has also shown remarkable economic growth, but the Asian economic crisis that began in 1997 resulted in a dramatic downturn of its economy. Korean management practices are not well known. It would be incorrect to assume that Korean management is simply an extension of Japanese management. It is not, although there are some cultural and structural similarities, such as the dominance of powerful conglomerate companies. The Korean model has been characterized by the ***chaebol***, a tight collusion between government and industrial conglomerates. However, Kim Young Sam, when he was the Korean President, suggested: "We need a better balance between big and small companies. We cannot just let the chaebol grow by taking over small businesses."[21] He even declared: "The chaebol system, which puts the emphasis on outward expansion that burdens the people, has come to an end."[22]

Chaebol is characterized by a tight collusion between government and industrial conglomerates.

In Japan, managers emphasize group harmony and cohesion expressed in the concept of *wa;* the Korean concept of ***inhwa*** also translates into harmony, but with less accent on group values. Korean organizations are quite hierarchical, with family members occupying key positions. Beyond blood relationships, the factors affecting hiring decisions often include the school attended or being from the same geographic region as the top person. The leadership style can best be described as top-down or autocratic/ paternalistic. This approach enables the firm to adjust quickly to demands in the environment by issuing commands. Lifetime employment does not prevail. Indeed, the labor turnover rates are high when compared with the low rates in Japan. Turnover is primarily attributable to resignations rather than dismissals. All in all, Korean management is different from both Japanese and American management practices.

Inhwa Korean concept of harmony

Japanese Management and Theory Z

Japan, one of the leading industrial nations in the world, has adopted managerial practices that are quite different from those of other economically advanced countries in the Western world. The discussion here deals with two common Japanese practices: lifetime employment and consensus decision-making. Then, it compares and contrasts Japanese and U.S. managerial practices, including Theory Z. In the closing sections of parts 2-6 of this book, other managerial practices in Japan are discussed and compared with those in the United States and China.

Lifetime employment

Important features of Japanese management are lifelong employment for permanent employees (related to the managerial function of staffing), great concern for the individual employee, and emphasis on seniority.

Typically, employees spend their working life with a single enterprise, which in turn gives employees security and a feeling of belonging. This practice brings the culturally induced concept of ***wa*** (harmony) to the enterprise, resulting in employee loyalty and close identification with the aims of the company. However, it also adds to business costs, because employees are kept on the payroll even when there is insufficient work. Consequently, firms are beginning to question this practice. Indeed, changes appear to be in the making, but they are slow. What is often overlooked, however, is that this permanent employment practice is used primarily by large firms. In fact, it is estimated that the job security system applies to only about one-third of the labor force.

Wa Japanese concept of harmony

International Perspective

Are Japanese Workers Happy?[23]

Japanese workers endured long working hours and sometimes poor working conditions in exchange for lifetime employment. While this practice still prevails in many companies, some companies do not provide their workers with a sufficient safety net of employment. This insecurity may have contributed to making Japanese workers the least satisfied among the seven countries surveyed.

A study conducted by International Survey Research found that the Japanese were the least satisfied and the Swiss workers the most satisfied. Specifically, in response to the question "Taking everything into account, how satisfied are you with your company as an employer?" the following results were obtained. In Switzerland, 82 percent of the workers were satisfied; in Canada, 73 percent; in Mexico, 72 percent; in Germany, 66 percent; in the United States, 65 percent; in the United Kingdom, 63 percent; and in Japan, only 44 percent.

Moreover, only 33 percent of the Japanese workers felt that their company was managed well. Among the respondents, 60 percent felt that they were not fairly appraised; only 37 percent felt that their pay was fair.

The often admired disciplined Japanese workforce appears to think that their contributions to Japan's economic success have not been sufficiently recognized and rewarded, as shown by the low satisfaction of its workers.

Closely related to lifelong employment is the seniority system, which provides privileges for older employees who have been with the enterprise for a long time. But there are indications that this system may be superseded by a more open approach that provides opportunities for advancement for young people. For example, the relatively new Sony Corporation has team leaders (a point is made of not calling them supervisors), who are often young women 18 or 19 years of age. There is practically no age difference between these leaders and the operators they lead.

The lifetime employment concept has worked well in Japan for a long time. However, the job security is changing, as illustrated by the Sony Corporation which plans to lay off 10,000 people worldwide or 6 percent of the workforce in 2012.

www.world.sony.com

Decision-making in Japan

The managerial practice of decision-making in Japan is also considerably different from that in the United States. It is built on the concept that changes and new ideas should come primarily from below. Thus, lower-level employees prepare proposals for higher-level personnel. Supervisors, rather than simply accepting or rejecting the proposals, tactfully question them, make suggestions, and encourage subordinates. If necessary, proposals are sent back to the initiator for more information. Still, in major decisions, top management retains its power.

Japanese management then uses decision-making by consensus to deal with everyday problems. Lower-level employees initiate an idea and submit it to the next higher level, until it reaches the desk of the top executive. If the proposal is approved, it is returned to the initiator for implementation.

Theory Z

In **Theory Z**, selected Japanese managerial practices are adapted to the environment of the United States. This approach is practiced by companies such as IBM, Hewlett-Packard, and the diversified retail company Dayton-Hudson. One of the characteristics of Type Z organization, as suggested by Professor William Ouchi, is an emphasis on the interpersonal skills needed for group interaction.[24] Yet, despite the emphasis on group decision-making, responsibility remains with the individual (which is quite different from the Japanese practice, which emphasizes collective responsibility). There is also an emphasis on informal and democratic relationships based on trust. Yet, the hierarchical structure remains intact, as illustrated by IBM where not only goals, but also authority, rules, and discipline guide corporate behavior.

Theory Z The adaptation of selected Japanese managerial practices to the U.S. environment.

www.ibm.com
www.hp.com

Rise of China: Deng Xiaoping Changed China from the Planned Economy toward a Market Economy[25]

Deng Xiaoping was a statesman, diplomat, and theorist. He has been credited with leading China from a planned economy to a market-driven economy that led to China's growth after the Cultural Revolution. He encouraged foreign investment and allowed limited private investment, which resulted in China becoming one of the fastest growing economies today. Deng's idea of moving toward a market economy was:

"Planning and market forces are not the essential difference between socialism and capitalism. A planned economy is not the definition of socialism, because there is planning under capitalism; the market economy happens under socialism, too. Planning and market forces are both ways of controlling economic activity."[26]

When Deng Xiaoping visited Singapore in 1978, he was impressed by the modern, technologically advanced nation that planned its economic development, built its infrastructure, and encouraged foreign investment. Deng considered Singapore's approach as the model for China, resulting in what has been called "socialism with Chinese characteristics." Combining the planning techniques with Singapore's developmental approach resulted in economic growth rates of around 9 percent in recent years, much that can be attributed to the leadership of Deng Xiaoping. China began building new coal mines, modern power grids, nuclear power plants, new roads and highways, and other projects. Much of the development can be attributed to the leadership of Deng Xiaoping.

More recently, focus has risen on the increasing globalization of Chinese firms. As the Chinese economy has grown rapidly and taken on increased levels of technological sophistication, more of its firms (e.g., Haier) have been able to compete on a global stage, internationalizing their value chain and expanding to new markets.[27]

The Rise of India

India has grown by the dramatic reform beginning in 1991, which resulted in the reduction of bureaucracy. Many restrictions on imports were removed and exports were encouraged. India's business leadership contributed to that change, especially in the high-tech area. One of those leaders was Narayana Murthy, who by some is considered the Bill Gates of India. He and his colleagues started Infosys Consultants. The economic awakening of India was partly due to the perceived economic threat from China.

Another respected business leader was Ratan Tata, who had the challenging task of modernizing Tata Steel. Mr. Tata, an architect educated in the United States, is sometimes compared with Jack

Welch of General Electric.[28] More recently, he gained prominence through the 2008 introduction of the $2,500 Nano car. Indian politicians now also look at the amazing economic developments in China. Still, India is far behind China in many areas, a country that learned from Singapore; now, India looks toward China for ideas. One area that needs improvement is India's poor infrastructure which discouraged investments by foreign companies.

While China focused on manufacturing, India's strength is in the high-technology area. While Bangalore is considered India's Silicon Valley, other cities also move into the technology sector. In Bangalore, one can find many foreign multinationals such as Nokia, Intel, Philips, and General Electric.

While the changes in democratic India are fairly rapid, they are slow when compared with authoritarian China [55]. Reaching consensus by the various interest groups takes time. Still, India today is making progress that could not have been imagined 50 years ago. The International Perspective highlights some of the differences between China and India.

International Perspective

A Comparison of China and India[29]

China	India
Den Xiaoping's change, modernization ("socialism with Chinese characteristics")	In 1991, historic reforms began; Finance Minister (now Prime Minister) Manmohan Singh
Authoritarian government	Democratic government 10
Transformation	same
Large population	same
Development of middle class	same
Planned and market-driven economy	Increasingly market driven

Communism hindrance to expansion	Past colonialism hindrance
Focus on infrastructure	Poor infrastructure
Fast change because of authoritarian direction	Slow consensus requiring changes
Factory advantage	Back-office advantage
Government by persuasion	Authoritarian government

International Perspective

Is China Losing Its Competitive Advantage? Opportunities for India[30]

For many years, China enjoyed a steady GDP growth of around 9 percent. Chinese manufacturers benefitted from low-cost labor, cheap currency, and minimal regulations. However, things are beginning to change with higher labor and energy costs, cancelation of preferential policies, and an appreciation of the Chinese currency. Clothing, shoe, and toy factories in the Guangdong area had to close. Other companies in the Pearl River Delta experienced similar problems. Big multinational companies also reconsidered their investment strategies. In an environment of globalization, firms are considering leaving China and looking for opportunities in India and Vietnam. A German sportswear company is looking for opportunities in India where the costs are lower. However, productivity would probably lag in India.

The Chinese manufacturing environment is changing. New laws now require firms to provide benefits such as pensions. Moreover, employees are gaining collective bargaining rights. While many of the changes have benefitted labor, the middle-class families have also been affected negatively by the rising cost of housing and other living expenses. Because of the rising costs in the cities and the coastal regions, companies now are looking at relocating to inner China as well as opportunities in Vietnam and India.

PORTER'S COMPETITIVE ADVANTAGE OF NATIONS[31]

Besides appreciating cultural differences in management style, managers should also understand the economic situations of other countries. Michael Porter, a Harvard Business School professor, questions the economic theory of comparative advantage. He suggests four sets of factors that contribute to a nation’s well-being. The first set pertains to factor conditions such as a nation’s resources, its labor costs, and the skills and education of its people. The second factor set consists of the demand conditions of a nation such as the market size, the way products may be advertised, and the degree of consumer sophistication. The third set of factors concerns the suppliers: a company prospers when supporting companies are located in the same area. The fourth factor set consists of the firm’s strategy and structure as well as rivalry among competitors.

A favorable combination of the four sets of factors leads to competitive advantage. When only two sets are favorable, competitive advantage usually cannot be sustained. On the other hand, the availability of resources is not always necessary. Japan, for example, lacks natural resources, yet the country prospered in the past. In fact, economic hardship may stimulate economic activity and success, as illustrated by Japan and Germany after World War II. However, these two countries have consumers who demand sophisticated products of high quality. Similarly, Japanese and German companies have good relationships with their suppliers. They also benefit from a good education system and a skilled labor force. Despite cooperation among Japanese companies on certain levels, they are also fiercely competitive.

International Perspective

General Motors' Expansion in India[32]

The automobile industry will be an important part in increasing the competitive advantage of India. Many car companies are investing in India, as illustrated by General Motors (GM). GM announced the opening of the second auto plant in India. This seems to indicate GM's strategy to expand in emerging markets. The company expects that India is going to be an important income source for the company in the coming years. Although it ranked only fifth in sales in 2008, GM invested heavily in the new plant in Talegaon near Pune. The plant is to produce the minicar called Spark. The introduction of new cars is not sufficient; a supportive dealer and service network is required for success. Therefore, GM is set to expand this network. In addition, the company has a technical center in Bangalore, where it employs engineers and designers. The Indian expansion, although small when compared with China, seems to indicate that GM sees India as an opportunity for its Asian expansion.

THE GLOBAL INNOVATION INDEX 2013[33]

The Global Innovation Index 2013 published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO) shows the top 10 rankings ranging from Switzerland to Ireland. The ranking is based by looking at 142 countries based on 84 indicators such as the quality of universities, micro financing, venture capital, and other criteria.

The top 2013 rankings are:

1. Switzerland
2. Sweden
3. The United Kingdom
4. The Netherlands

5. The United States
6. Finland
7. Hong Kong (China)
8. Singapore
9. Denmark
10. Ireland

Switzerland maintained its top spot when compared to the 2012 index and Sweden ranked second in 2012 and 2013. The United States moved from the 10th rank to the 5th, primarily because of its top universities. In the various regions, the top ranked countries are:

Central and Southern Asia:	India
Sub-Sahara Africa:	Mauritius
Southeast Asia and Oceania:	Hong Kong (China)
Latin America and the Caribbean:	Costa Rica
Northern Africa and Western Asia:	Israel
Europe:	Switzerland
Northern America:	The United States

GAINING A GLOBAL COMPETITIVE ADVANTAGE THROUGH QUALITY MANAGEMENT

Quality has become a strategic weapon in the global marketplace. American companies, once the acknowledged world leaders in productivity, have come under siege from firms around the globe. One reason is that many American companies became complacent and failed to see the changing needs of the global market, which increasingly demanded quality products. This complacency and the lack of foresight enabled competitors, especially those from Japan, to use a powerful weapon to increase their market shares in the United States and European markets. This weapon is quality.

Before managers can revolutionize the production process, they must first revolutionize the way they think about quality. The need for a new philosophy of quality is paramount. The old philosophy of adequacy-maintaining the status quo for as long as a product turns a profit-is no longer acceptable. Now, the aim of companies must be nothing short of excellence. To attain excellence, however, managers must be willing to put the needs of their customers first. They must never forget that customers are indispensable: they are the reason the company exists.

Traditional Quality Management Gurus[34]

Although the concern for quality may seem like a recent phenomenon, there were several quality gurus who tried to introduce their theories to American companies in the 1950s. But U.S. managers did not listen. This, however, is beginning to change. In fact, early quality management pioneers have now been joined by many new advocates of quality. We will briefly review the contributions of three quality champions: Deming, Juran, and Crosby. Each has taken a different approach to quality management, yet each has helped to shape its direction.

There are several interesting parallels between the career paths of the two American professors: Dr. Deming and Dr. Juran. Both men taught in the business department at the New York University in the 1950s. During the post-World War II economic boom, Deming and Juran made unsuccessful attempts to persuade American managers to focus on quality. When Americans ignored their teachings, the two scholars decided to take their message to a more receptive audience — the Japanese.

Their pilgrimage to Japan could not have occurred at a more favorable time. Before the 1950s, Japan’s export trade suffered because their domestic goods had a reputation for shoddy workmanship and inferior quality. Japanese-made cars, for example, were poorly designed and manufactured, were unreliable, and featured unattractive styling. With such a combination of undesirable product features, it is not surprising that American consumers were uninterested in Japanese- made vehicles.

But over the last three decades, Japanese auto makers have steadily captured a market share in the United States by selling quality cars. This transformation from inferior to superior quality was, to a great extent, made possible by the teachings of Deming and Juran. They helped to revolutionize the quality of Japan's industries, and they have become the quality heroes. Partly because of their work, consumers all over the world now equate Japanese products with high quality. As a tribute to his contributions, the most coveted quality award in Japan is named in honor of the late Dr. Deming. Today, many years after Deming and Juran showed Japanese managers how to produce quality products, they are finally getting some much-deserved attention from American managers.

The last of this trio of quality gurus is Phil Crosby. Unlike Deming and Juran, Crosby did not cross the Pacific to instruct the Japanese nor did his approach originate within the university setting. Crosby was not an academic. He formulated practical ideas for improving quality while working in a variety of U.S. corporations. His hands-on style enabled him to put his ideas into action at Martin Marietta and ITT, where he worked before becoming a corporate consultant.

While all three experts—Deming, Juran, and Crosby—view quality as an imperative for survival, each of them defines quality differently. For Deming, quality meant providing customer-satisfying products and services at a low cost. It also meant a commitment to continual innovation and improvement that the Japanese call *kaizen.* For Juran, a key element in the definition of quality is a product's "fitness for use." Finally, Crosby explains quality from an engineering perspective as the conformance to precise standards and requirements. His motto is "Do it right the first time [and] achieve zero defects." All three experts consider statistics a valuable tool for measuring quality, although Deming is perhaps the best known for commitment to statistical analysis.

www.deming.org
www.juran.com
www.philipcrosby.com

Other Quality Approaches and Awards[35]

As mentioned earlier, the Deming Award recognizes companies that have achieved superior quality in Japan. A similar award, but one with a different emphasis, is the Malcolm Baldrige National Quality Award established by the U.S. Congress in 1987. Another approach is known as ISO 9000, pioneered by the Europeans. There is also the European Quality Award given by the European Foundation for Quality Management.[36]

Malcolm Baldrige National Quality Award 1996[37]

The Malcolm Baldrige Award is the highest national recognition a U.S. company can receive for business excellence. The award helps the understanding of performance requirements of excellence and competitiveness. The three categories for participation are (1) manufacturing firms, (2) service companies, and (3) small businesses. Applicants for the award are expected to share information about the company's improvement processes and the results so that this information can be used by other organizations. Each company benefits by getting feedback from the examiners.

www.quality.nist.gov

Participants in the award program must show results and improvements in a variety of areas. Specifically, the criteria are grouped into seven categories with 24 items. The assessment, however, is tailored to the requirements of key success factors of the specific company, depending on the kind of business, its size, its strategy, and its stage of development. The seven categories, illustrated in Figure 3-2, are[38]:

1. The *leadership* category requires that senior executives set direction and build and maintain the leadership required for high performance. This criterion also demands leadership in creating an effective organization and management system as well as demonstrating public responsibility and corporate citizenship.

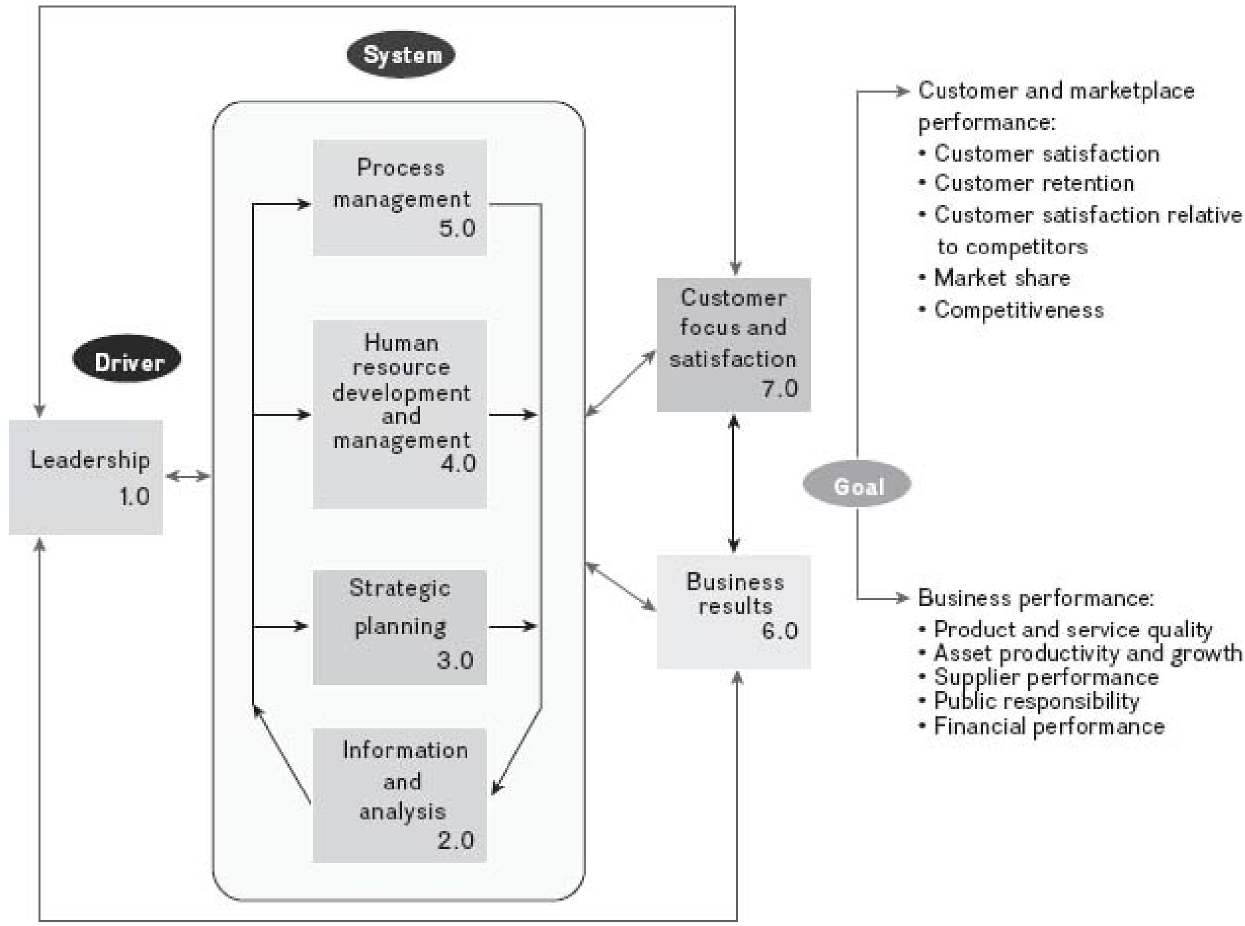

FIGURE 3-2 The Baldrige Award criteria framework: dynamic relationships

Source: Malcolm Baldrige National Quality Award 1996 Award Criteria (Gaithersburg, MD: U.S. Department of Commerce, Technology Administration, National Institute of Standards and Technology, undated).

2. The *information and analysis* category examines the company's effectiveness and use of management information (financial and nonfinancial). It not only requires the analysis of company data, but also includes competitive analysis and benchmarking, comparing performance with the best firms.
3. *Strategic planning* includes business planning with an emphasis on translating the plans into customer and operational requirements. Planning has to be driven by customer needs and operational improvement.

4. The category of *human resource development and management* includes criteria for all key aspects of human resources.
5. *Process management* focuses on all key work processes, including the design, introduction, production, and delivery of products and services. It also includes criteria for support services and supplier performance.
6. Organizations are results-oriented. This category looks at *results:* quality results in products and services as well as company operational and financial results; it also includes human resource and supplier performance results.
7. The final category is *customer focus and satisfaction.* Specifically, the criteria in this category require excellence in customer and market knowledge, relationships with customers, and customer satisfaction compared with that of the firm's competitors.

The award criteria focus on business results. They are nonprescriptive, which means the requirements can be met in a variety of ways. As shown in the seven categories, the criteria are comprehensive, involving interrelated processes and results that focus on improvement and continuous learning. They also emphasize a systems approach in which all parts of the organization are aligned with each other. Moreover, the criteria serve as a diagnostic tool, pointing out the strengths and weaknesses of the company.

The award criteria are not static but evolve toward a comprehensive system. For example, the 1996 award criteria discussed earlier had a new "business results" category added. At any rate, the Malcolm Baldrige Award is designed to make U.S. companies more competitive in the global environment. Its criteria are congruent with the discussions in this book.

ISO 9000[39]

ISO 9000 has become so popular that some have termed it ISOmania. ISO, which is derived from the Greek *isos*, meaning equal, was founded in 1946 in Geneva, Switzerland. The ISO 9000 document was first published in 1987 and consists actually of five related standards numbered from 9000 to 9004 (and expanding). Although the ISO movement originated in Europe, now more than 100 countries participate in ISO, including Japan, the United States, and European Union. Most large companies, such as General Electric, Du Pont, British Telecom, and Philips Electronic, urge and even demand suppliers to be ISO 9000 certified.

www.iso.ch

ISO 9000 requires that companies document their processes and quality system, assure that all employees understand and follow the guidelines of the document, continually monitor and check the quality system through internal and external audits, and make any necessary changes. The internal benefits of ISO 9000 are the documentation of processes, a greater quality awareness of the company's employees, a possible change in organization culture resulting in increased productivity, and the installation of an overall quality system. The external benefits include an advantage over nonregistered competitors, meeting the requirements set forth by customers and the European Union, higher perceived quality and possible greater customer satisfaction, and meeting, for example, the demands of purchasing agents.

The Malcolm Baldrige award and ISO 9000 differ in focus, purpose, and content. ISO 9000 focuses on the adherence to the practices specified by the company. Its purpose is to assure buyers that certain practices and documentation are in conformance with the quality system identified by the firm. ISO 9000 does not evaluate the efficiency of the operation, nor improvement trends, nor the product quality. It does not ensure quality products or services, does not emphasize continuous improvement, and is not concerned with empowerment or teamwork. But ISO 9000 does provide the documentation to show customers how the company trains employees, tests its products, and corrects problems. Purchasing agents like to see proof that the registered company has a documented quality system and follows it. Documentation is a central aspect of ISO 9000. Therefore, ISO registration cannot be compared with the Baldrige Award scores.

European Model for Total Quality Management

Another quality program is the European Quality Award bestowed on excellent companies by the European Foundation for Quality Management (EFQM).[40] The 1996 European model for total quality management (Figure 3-3) is built on the following premise: "Customer Satisfaction, People (employee) Satisfaction, and Impact on Society are achieved through Leadership driving Policy and Strategy, People Management, Resources and Processes, leading ultimately to excellence in Business Results."[41] The percentages shown in the figure are used for assigning weights in the award.

www.efqm.org

The European total quality management model is built on the American Baldrige award but contains some new aspects, as a comparison of the two models reveals. Still, the models are very similar. For example, the "impact on society" variable in the European model is considered in the "leadership" concept of the Baldrige Award as "public responsibility and corporate citizenship." Similarly, "people satisfaction" in the European model is part of "human resource development and management" in the Baldrige model. What is interesting in the European model is that the first five variables (leadership, people management, policy and strategy, resources, and processes) are called "enablers." This means that they deal with *how* an organization achieves the results. The four other criteria (people satisfaction, customer satisfaction, impact on society, and business results) are called "results" and deal with *what* an organization has achieved.

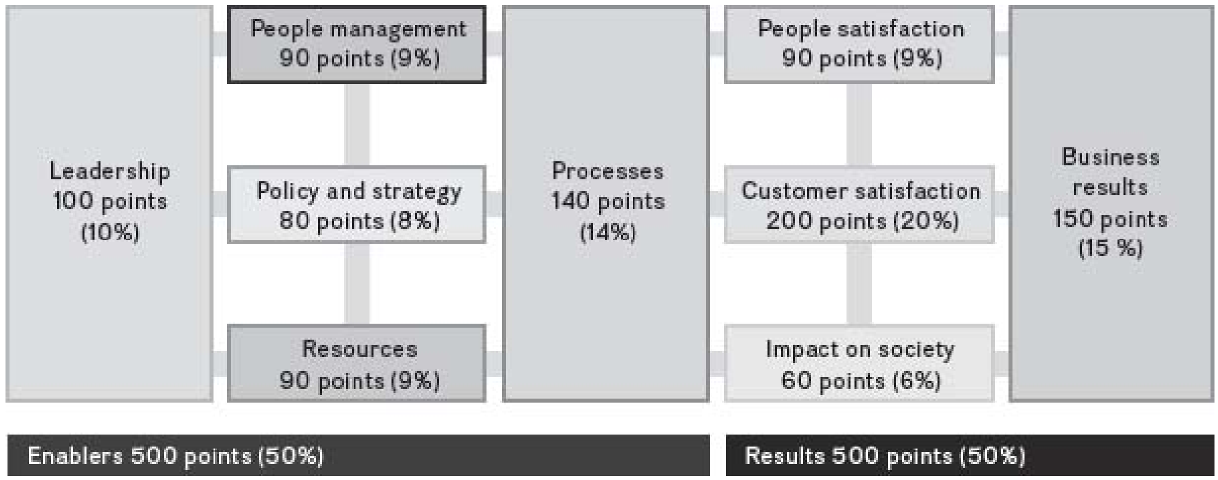

FIGURE 3-3 The European Foundation for Quality Management model for business excellence

Used with permission. "The EFQM Model for Business Excellence," in *Self-Assessment 1997 Guidelines for Companies* (Brussels: European Foundation for Quality Management, 1997), p. 8.

In conclusion, the American Malcolm Baldrige National Quality Award model and the European model for total quality management are similar, but both are very different from ISO 9000.

SUMMARY

International businesses, which extend their operations across national boundaries, are particularly affected by the educational, sociocultural-ethical, political-legal, and economic environments of the host countries. MNCs have developed different orientations for operating in foreign countries, ranging from ethnocentric (the foreign operation's views are based on those of the parent company) to geocentric (the organization is viewed as an interdependent system operating in many countries, that is, it is truly international).

Countries are forming regional alliances, such as the European Union, NAFTA, ASEAN, and Mercosur. Hofstede studied the impact of a country's culture on the behavior of its people.

Managerial practices differ between countries. In France, for example, government planning greatly influences the planning and direction of enterprises. In Germany, the use of authority and the concept of codetermination shape managerial practices. South Korea has developed managerial practices that are different from those in Japan and the United States. Japanese managerial practices differ greatly from those in the United States. Theory Z, which involves selected Japanese managerial practices, has been adopted by some U.S. companies.

International business managers also need to understand the economic situations of other countries. Porter identified four sets of factors that contribute to the competitive advantage of a nation.

Quality is a strategic weapon in the global marketplace. The traditional contributors to quality management are Deming, Juran, and Crosby. The Malcolm Baldrige National Quality Award recognizes U.S. organizations for their excellent performance. The European quest for quality is exemplified by ISO 9000 and the European Quality Award.

KEY IDEAS AND CONCEPTS FOR REVIEW

- International business
- Exportation
- Licensing
- Management contract
- Joint venture
- Subsidiary
- Multinational corporation
- Ethnocentric orientation
- Polycentric orientation
- Regiocentric orientation
- Geocentric orientation
- Global or transnational corporation

- Country alliance and trade bloc
- Hofstede's five dimensions of behavior
- Management practices in France, Germany, and South Korea
- Management practices in Japan and Theory Z
- Comparison of China with India
- Porter's competitive advantage of nations
- Global Innovation Index 2013
- Contributions to quality management by Deming, Juran, and Crosby
- Malcolm Baldrige National Quality Award criteria
- ISO 9000
- European Quality Award model

FOR DISCUSSION

What advantages do MNCs have? What challenges must they meet? Give examples. What are the five cultural dimensions identified by Hofstede?

What are some key characteristics of French, German, Korean, and Japanese management practices?

1. What is Theory Z?
2. Do you think the managerial concepts and practices applied in the United States can be transferred to Britain, France, Germany, or any other country that you know?
3. Take any country which you are familiar with and discuss how factors in the educational environment impact on managing an enterprise.
4. Discuss how a company with a geocentric orientation may manage. Compare these practices with a company having an ethnocentric outlook.
5. Do you think that the way managerial decisions are made in Japan could work in the United States? Why or why not?

6. From the various approaches to quality management, which model do you find most useful? Why?

EXERCISE/ACTION STEPS

Interview the managers of a company that is known for excellent products or services. Ask how they achieved the high level of quality.

INTERNET RESEARCH

1. Search the Internet for Geert Hofstede and identify his articles and books. Discuss the cultural characteristics of any three countries.
2. Use the Internet to find out the economic conditions of the Eastern European countries that have been admitted to the European Union. Select one country to discuss in detail.

Leadership Case

Starbucks-The Leadership of Howard Schultz[42]

Starbucks was started in 1971 by three academicians in Seattle. Ten years later, Howard Schultz joined the company. During his trip to Italy, he realized that the coffee house can be much more than a place where you drink coffee. However, his ideas were not accepted by the owners of the company. Frustrated, Howard Schultz looked for investors and eventually bought the company. From 1987 until 1992, Starbucks remained a privately held company. When the company ventured outside the Pacific Northwest, the company first experienced disappointments which were followed by mixed to moderate successes.

Howard's dream was to not only provide a friendly environment for its customers, but also for its employees providing friendly service. This meant taking good care of its employees by providing healthcare benefits not only for its full-time employees, but also for those working 20 hours or more. Moreover, employees could also purchase stocks in the company. In all, company pay and benefits attracted motivated employees with good skills.

Starbucks' aim was "to build a company with soul." This meant that employees had to listen carefully to what customers want and meet their expectations. The customer- oriented philosophy was expressed in the mission statement which also emphasized that employees treating each other with dignity, enjoying diversity in the workplace, reflecting the local community, having high standards for coffee, being a good member of the community, and being, of course, profitable.

The mission statement resulted in strategies that lead not only to domestic, but also international expansion. In 2006, the Starbucks Web site showed 16 international countries plus Beijing, Shanghai, and Hong Kong. The goal was to have some 25,000 stores in various locations. To achieve this aim, Starbucks designed stores with a pleasant ambiance which customers, surrounded by coffee aroma, really enjoy. Also, since 2002, the company worked with T-Mobile USA by providing Internet access in the coffee shops. Besides offering caffeinated and decaffeinated beverages, a great variety of specialty coffees as well as teas are offered. Customers can also get juices, pastries, coffee mugs, coffee-making equipment, and even CDs. Moreover, Starbucks partnered with PepsiCo and Dreyer's Grand Ice Cream and engaged in licensing agreements with Kraft Foods. Coffee is also offered at warehouse clubs, Marriott Host International, United Airlines, and even at Wells Fargo Bank. Catalog sales were tried but did not succeed, and consequently were discontinued. Starbucks also invested unsuccessfully in a number of dot.com companies.

The sense of social responsibilities guided the company's actions. Not only did the firm participate in local charities to "give back" to the community in which it operates, but also applied this sense of responsibility to its purchasing practices. Most of its retail stores and hotels with which the company had licensing agreements, used Fair Trade Certified coffee.[43]

Clearly, the company has been successful despite competition from coffee makers such as Proctor & Gamble, Nestle, and Kraft General Foods. How, then, will Starbucks meet those and other challenges in the future?

Questions

1. Why is Starbucks so successful?
2. How does Starbucks differ from other coffee houses?
3. How could the company attract non-coffee drinkers?
4. What other challenges may Starbucks encounter in the future?

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1. Avoidance of uncertainty
2. Power distance
3. Societal collectivism
4. Group collectivism
5. Egalitarianism of gender
6. Assertiveness
7. Orientation toward the future
8. Performance orientation
9. Humane orientation

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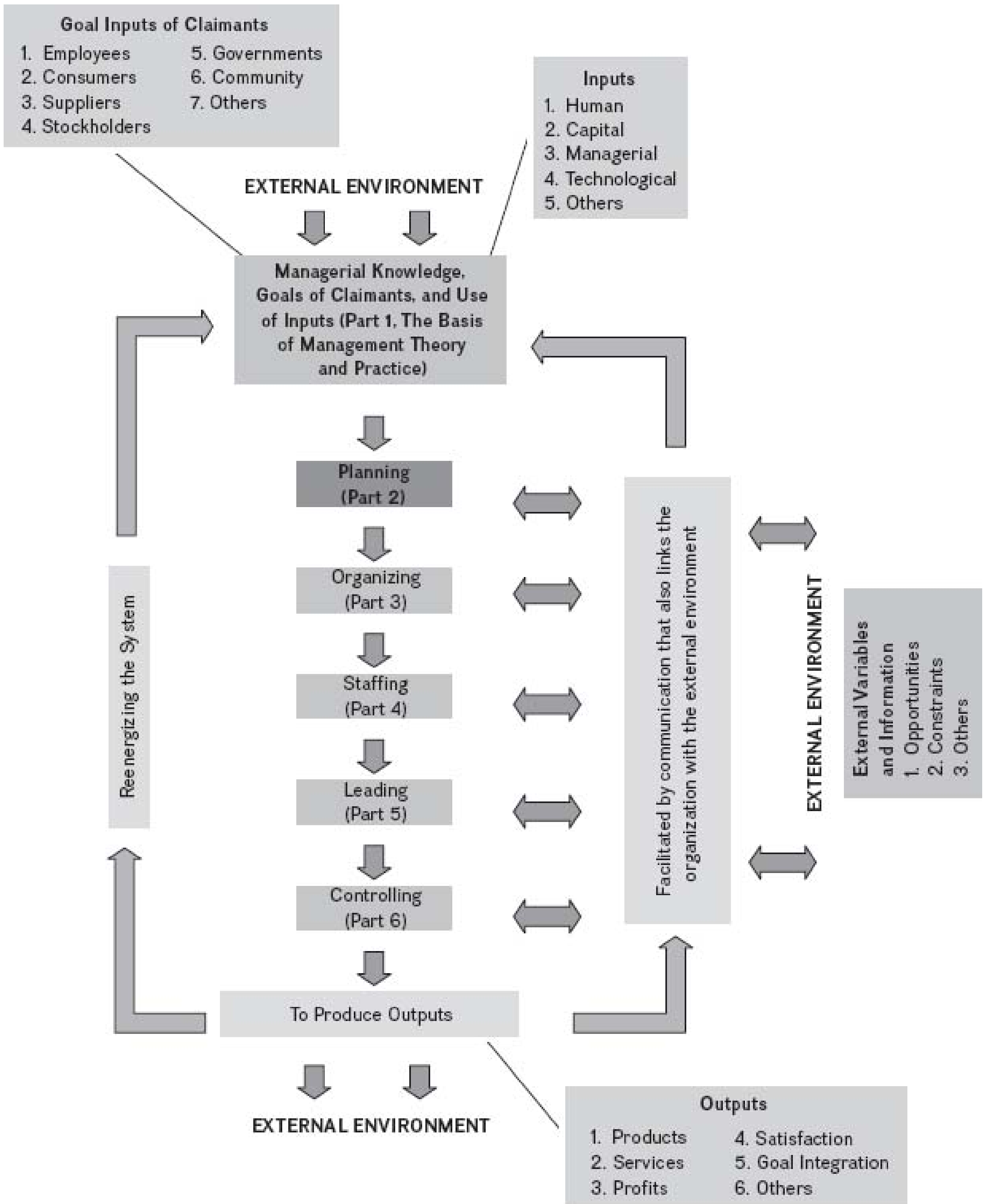
PART 2

Planning



SYSTEMS APPROACH TO MANAGEMENT: Planning

Part 2

- Chap 4. Essentials of Planning and Managing by Objectives
  - Types of Plans
  - Steps in Planning
  - Objectives
  - Evolving Concepts in Management by Objectives
- Chap. 5. Strategies, Policies, and Planning Premises
  - The Nature and Purpose of Strategies and Policies
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  - Heuristics in Decision-Making
  - Evaluation of Alternatives
  - Selecting an Alternative: Three Approaches
  - Programmed and Non-Programmed Decisions
  - Decision-Making under Certainty, Uncertainty and Risk
  - Creativity and Innovation
- Part Closing: Major Principles or Guides for the Managerial Function of Planning
  - Major Principles or Guides For Planning
  - The Purpose and Nature of Planning
  - The Structure of Plans
  - The Process of Planning

CHAPTER 4

Essentials of Planning and Managing by Objectives

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Understand what managerial planning is and why it is important
2. Identify and analyze the various types of plans and show how they relate to one another
3. Outline and discuss the logical steps in planning and see how these steps are essentially a rational approach to setting objectives and selecting the means of reaching them
4. Explain the nature of objectives
5. Describe how verifiable objectives can be set for different situations
6. Outline the evolving concepts in management by objectives
7. Understand the model of the systems approach to management by objectives
8. Describe the benefits of management by objectives
9. Recognize the weaknesses of management by objectives and suggest ways to overcome them

You are now familiar with the basic management theory and have been introduced to the five essential managerial functions: planning, organizing, staffing, leading, and controlling. In Part 2 of this book, we shall discuss planning.

In designing an environment for the effective performance of individuals working together in a group, a manager's most essential task is to see that everyone understands the group's mission and objectives and the methods for attaining them. If group effort is to be effective, people must know what they are expected to accomplish. This is the function of planning. It is the most basic of all the managerial functions. **Planning** involves selecting missions and objectives and deciding on the actions to achieve them; it requires decision-making, that is, choosing a course of action from among alternatives. Plans thus provide a rational approach to achieving preselected objectives. Planning also strongly implies managerial innovation, as will be discussed in Chapter 6. Planning bridges the gap from where we are to where we want to go. It is also important to point out that planning and controlling are inseparable—the Siamese twins of management (Figure 4-1). Any attempt to control without plans is meaningless, since there is no way for people to tell whether they are going where they want to go (the result of the task of control) unless they first know where they want to go (part of the task of planning). Plans thus furnish the standards of control.

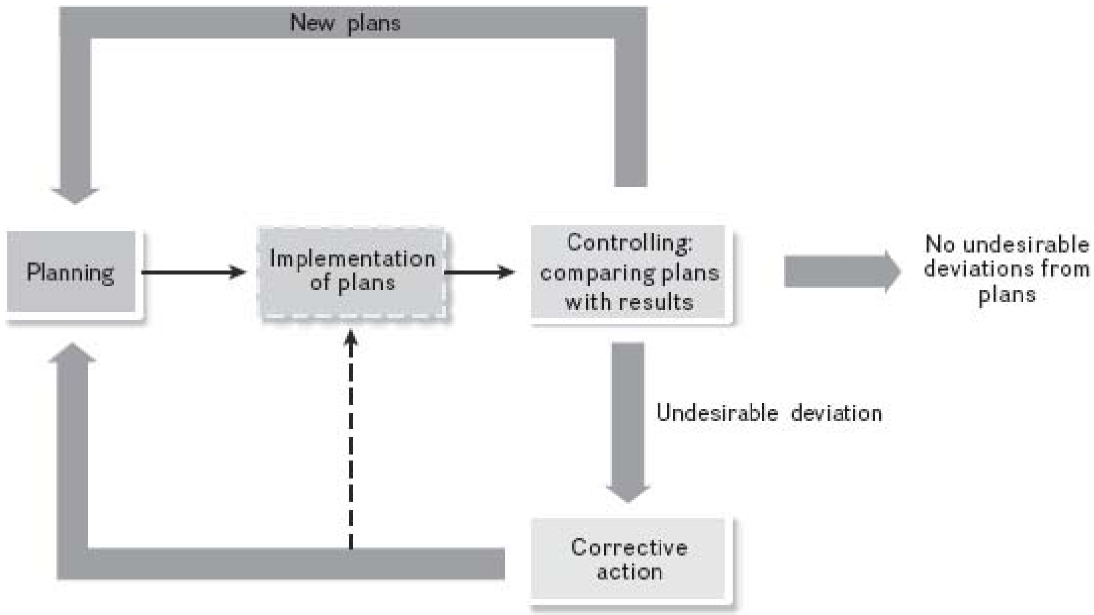

FIGURE 4-1 Close relationship of planning and controlling

TYPES OF PLANS

Plans can be classified as (1) missions or purposes, (2) objectives or goals, (3) strategies, (4) policies, (5) procedures, (6) rules, (7) programs, and (8) budgets.

Missions or Purposes*

The **mission** or **purpose** (the terms are often used interchangeably)[1] identifies the basic purpose or function or tasks of an enterprise or agency or any part of it. Every kind of organized operation has, or at least should have if it is to be meaningful, a mission or purpose. In every social system, enterprises have a basic function or task assigned to them by society. For example, the purpose of a business generally is the production and distribution of goods and services. The purpose of a state highway department is the design, building, and operation of a system of state highways. The purpose of the courts is the interpretation of laws and their application. The purpose of a university is teaching, research, and providing services to the community.

Mission or purpose The basic purpose or function or tasks of an enterprise or agency or any part of it.

Innovative Perspective

Google's Mission

Google is well known as the world's leading Internet search engine. While its success is a function of numerous factors, its clear and focused mission has created an unambiguous direction for the company that has set in motion the steps to its global success. As listed on its website, "Google's mission is to organize the world's information and make it universally accessible and useful."[2] This simple and clear mission helps inform and contextualize all that Google does. The mission is also helpful in directing employee actions in daily duties, as each task should be in support of its mission. A clear and direct mission inspires and directs and is a necessary condition for organizational success. Now part of the holding company, Alphabet, Google's mission remains focused.

Although we do not do so, some writers distinguish between mission and purpose. While a business, for example, may have a social purpose of producing and distributing goods and services, it can accomplish this by fulfilling a mission of producing certain lines of products. The mission of an oil company, like Exxon, is to search for oil and to produce, refine, and market petroleum and petroleum products, from diesel fuel to chemicals. The mission of Du Pont has been expressed as "better things through chemistry," and Kimberly-Clark (noted for its Kleenex trademark) regards its business mission as the production and sale of paper and paper products. In the 1960s, the mission of the National Aeronautics Space Administration (NASA) was to get a person to the moon before the Russians. It is true that in some businesses and other enterprises, the purpose or mission often becomes fuzzy. For example, many conglomerates have regarded their mission as **synergy**, which is accomplished through the combination of a variety of companies.

www.exxon.com
www.dupont.com
www.kimberly-clark.com
www.nasa.gov

An organization's mission is also often accompanied by its vision. For example, the core mission of the University of San Francisco (USF) is to "promote learning in the Jesuit Catholic tradition." USF's vision is to "be internationally recognized as a premier Jesuit Catholic, urban university with a global perspective that educates leaders who will fashion a more humane and just world."[3] What is the vision and mission of your organization? Does it inspire?

Objectives or Goals

Objectives or **goals** (the terms are used interchangeably in this book) are the ends toward which activity is aimed. They represent not only the end point of planning, but also the end toward which organizing, staffing, leading, and controlling are aimed. The nature of objectives and management by objectives (MBO) will be discussed in greater detail later in this chapter.

Objectives or goals The ends toward which activity is aimed.

Strategies

For years, the military used the word *strategies* to mean grand plans made in light of what it was believed an adversary might or might not do. While the term still usually has a competitive implication, managers increasingly use it to reflect broad areas of an enterprise's operation. In this book, **strategy** is defined as the determination of the basic long-term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals.

Strategy The determination of the basic long-term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals.

For example, a company may have a strategy of rapid growth in sales and market share at the expense of profit. Or the firm may select a focus strategy on a core business or a diversification strategy across multiple businesses. Strategies can be adjusted, but given the significant allocation of resources (i.e., time and capital) needed to support a strategy, a company's strategy tends to be in place for an extended period of time.

Policies

Policies also are plans in that they are general statements or understandings that guide or channel thinking in decision-making. Not all policies are "statements"; they are often merely implied from the actions of managers. The president of a company, for example, may strictly follow—perhaps for convenience rather than as policy— the practice of promoting from within; the practice may then be interpreted as policy and carefully followed by subordinates. In fact, one of the problems of managers is to make sure that subordinates do not interpret as policy minor managerial decisions that are not intended to serve as patterns.

Policies General statements or understandings that guide or channel thinking in decision-making.

Policies define an area within which a decision is to be made and ensure that the decision will be consistent with and contribute to an objective. Policies help decide issues before they become problems, make it unnecessary to analyze the same situation every time it comes up, and unify other plans, thus permitting managers to delegate authority and still maintain control over what their subordinates do.

There are many types of policies. Examples include policies of hiring only university-trained engineers, encouraging employee suggestions for improved cooperation, promoting from within, conforming strictly to a high standard of business ethics, and setting competitive prices.

Procedures

Procedures are plans that establish a required method of handling future activities. They are chronological sequences of required actions. They are guides to action rather than to thinking and they detail the exact manner in which certain activities must be accomplished. For example, Case Western University outlines three steps for its appraisal process: (1) setting performance objectives, (2) performing a mid-year review of the objectives, and (3) conducting a performance discussion at the end of the period.[4] Procedures often cut across departmental lines. For example, in a manufacturing company, the procedure for handling orders may involve the sales department (for the original order), the finance department (for acknowledgment of receipt of funds and for customer credit approval), the accounting department (for recording the transaction), the production department (for the order to produce the goods or the authority to release them from stock), and the shipping department (for determination of shipping means and route).[5]

Procedures Plans that establish a required method of handling future activities.

A few examples illustrate the relationship between procedures and policies. Company policy may grant employees vacations; procedures established to implement this policy will provide for scheduling vacations to avoid disruption of work, setting rates of vacation pay and methods for calculating them, maintaining records to ensure each employee of a vacation, and spelling out the means for applying for leave.

Rules

Rules spell out specific required actions or nonactions, allowing no discretion. They are usually the simplest type of plan. “No smoking” is a rule that allows no deviation from a stated course of action. The essence of a rule is that it reflects a managerial decision that a certain action must—or must not—be taken. Rules are different from policies, in that policies are meant to guide decision-making by marking off areas in which managers can use their discretion, while rules allow no discretion in their application.

Rules spell out specific required actions or nonactions, allowing no discretion.

Programs

Programs are a complex of goals, policies, procedures, rules, task assignments, steps to be taken, resources to be employed, and other elements necessary to carry out a given course of action; they are ordinarily supported by budgets. They may be as major as an airline’s program to acquire a $20 billion fleet of jets or a five-year program to improve the status and quality of its thousands of flights. Or they may be as minor as a program formulated by a single supervisor to improve the morale of workers in the parts manufacturing department of a farm machinery company.

Program A complex assembly of goals, policies, procedures, rules, task assignments, steps to be taken, resources to be employed, and other elements necessary to carry out a given course of action.

Budgets

A **budget** is a statement of expected results expressed in numerical terms. It may be called a “quantified” plan. In fact, the financial operating budget is often called a *profit plan.* A budget may be expressed in financial terms; in terms of labor hours, units of product or machine hours; or in any other numerically measurable terms. It may deal with operation, as the expense budget does; it may reflect capital outlays, as the capital expenditure budget does; or it may show cash flow, as the cash budget does. One of the most comprehensive budgets is prepared by the Office of Management and Budget of the White House.[6] The budget proposal is then presented to the Congress by the president of the United States.

Budget A statement of expected results expressed in numerical terms.

Since budgets are also control devices, we reserve our principal discussion of them for Chapter 19 on control techniques. However, making a budget is clearly planning. The budget is the fundamental planning instrument in many companies. It forces a company to make in advance—whether for a week or for five years—a numerical compilation of expected cash flow, expenses and revenues, capital outlays, or labor- or machine-hour utilization. The budget is necessary for control, but it cannot serve as a sensible standard of control unless it reflects plans.

STEPS IN PLANNING

The practical steps and diagramed in Figure 4-2 are of general application. In practice, however, one must study the feasibility of possible courses of action at each stage.

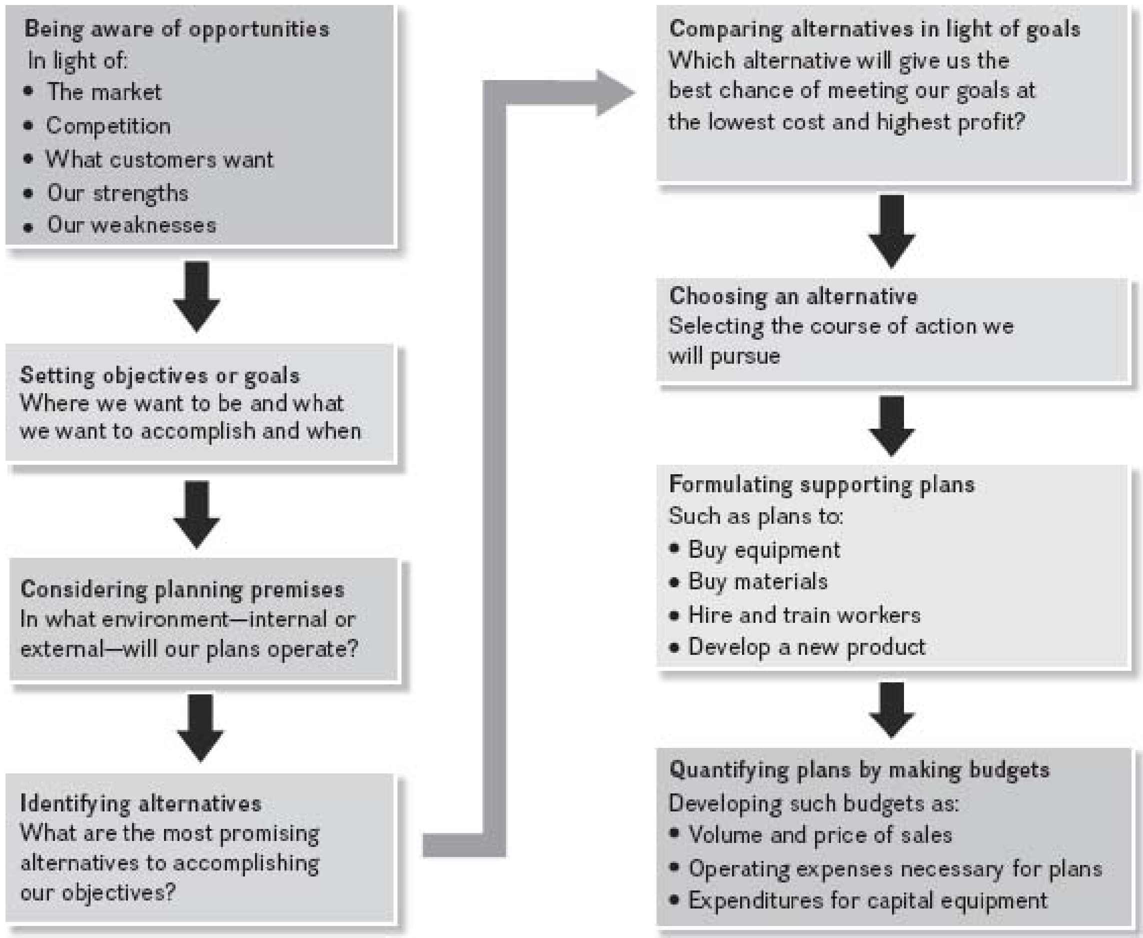

FIGURE 4-2 Steps in planning

1. Being Aware of Opportunities

Although it precedes actual planning and is therefore not strictly a part of the planning process, an awareness of opportunities* in the external environment as well as within the organization is the real starting point for planning. All managers should take a preliminary look at possible future opportunities and see them clearly and completely, know where their company stands in light of its strengths and weaknesses, understand what problems it has to solve and why, and know what it can expect to gain. Setting realistic objectives depends on this awareness. Planning requires a realistic diagnosis of the opportunity situation.

2. Establishing Objectives

The second step in planning is to establish objectives for the entire enterprise and then for each subordinate work unit. This is to be done for the long term as well as for the short range. Objectives specify the expected results and indicate the end points of what is to be done, where the primary emphasis is to be placed, and what is to be accomplished by the network of strategies, policies, procedures, rules, budgets, and programs.

Enterprise objectives give direction to the major plans, which by reflecting these objectives define the objective of every major department. Major departmental objectives, in turn, control the objectives of subordinate departments and so on down the line. In other words, objectives form a hierarchy. The objectives of lesser departments will be more accurate if subdivision managers understand the overall enterprise objectives and the derivative goals. Managers should also have the opportunity to contribute ideas for setting their own goals and those of the enterprise.

3. Developing Premises

The next logical step in planning is to establish, circulate, and obtain agreement to utilize critical planning premises such as forecasts, applicable basic policies, and existing company plans. **Premises** are assumptions about the environment in which the plan is to be carried out. It is important for all the managers involved in planning to agree on the premises. In fact, the major **principle of planning premises** is this: the more thoroughly individuals charged with planning understand and agree to utilize consistent planning premises, the more coordinated enterprise planning will be.

Premises Assumptions about the environment in which the plan is to be carried out.

Principle of planning premises The more thoroughly individuals charged with planning understand and agree to utilize consistent planning premises, the more coordinated enterprise planning will be.

Forecasting is important in premising: What kinds of markets will there be? What volume of sales? What prices? What products? What technical developments? What costs? What wage rates? What tax rates and policies? What new plants? What policies with respect to dividends? What political or social environment? How will expansion be financed? Forecasts should be based on careful research that uses rigorous analytical techniques.

4. Determining Alternative Courses

The fourth step in planning is to search for and examine alternative courses of action, especially those not immediately apparent. There is seldom a plan for which reasonable alternatives do not exist and quite often, an alternative that is not obvious proves to be the best.

The more common problem is not finding alternatives but reducing the number of alternatives so that the most promising may be analyzed. Even with mathematical techniques and the computer, there is a limit to the number of alternatives that can be thoroughly examined. The planner must usually make a preliminary examination to discover the most fruitful possibilities.

5. Evaluating Alternative Courses

After seeking out alternative courses and examining their strong and weak points, the next step is to evaluate the alternatives by weighing them in light of premises and goals. One course may appear to be the most profitable but may require a large cash outlay and have a slow payback; another may look less profitable but may involve less risk; still another may better suit the company’s long-range objectives.

There are so many alternative courses in most situations and so many variables and limitations to be considered that evaluation can be exceedingly difficult. Because of these complexities, the newer methodologies and applications and analysis are discussed in Part 6 on controlling.

Developing a Business Case is one method to assess alternative courses of actions and make a decision on the best course of action.

A strategic business case takes into account market trends, the competitive environment, and the business model to be applied to the suggested solution in addition to internally focused business metrics.

Typically, a business case begins with a clear articulation of the opportunity along with the objectives of the potential course of action. Then, **alternative courses of action** are identified and data is gathered on each of the likely alternatives that lead to an analysis of these alternatives against the objectives and measures of success.

Finally, a choice is made that takes into account relevant risks and a plan is created to implement the chosen course of action. The business case may be communicated in a written document and/or with a presentation.

6. Selecting a Course

This is the point at which the plan is adopted—the real point of decision-making. Occasionally, an analysis and evaluation of alternative courses will disclose that two or more are advisable, and the manager may decide to follow several courses rather than the one best course.

7. Formulating Derivative Plans

When a decision is made, planning is seldom complete and a seventh step is indicated. Derivative plans are almost invariably required to support the basic plan.

8. Quantifying Plans by Budgeting

After decisions are made and plans are set, the final step in giving them meaning, as was indicated in the discussion on types of plans, is to quantify them by converting them into budgets. The overall budget of an enterprise represents the sum total of income and expenses, with resultant profit or surplus, and the budgets of major balance sheet items such as cash and capital expenditures. Each department or program of a business or some other enterprise can have its own budgets, usually of expenses and capital expenditures, which tie into the overall budget.

If done well, budgets become a means of adding the various plans and set important standards against which planning progress can be measured.

Coordination of Short- and Long-Range Plans

Often, short-range plans are made without reference to long-range plans. This is plainly a serious error. The importance of integrating the two types cannot be overemphasized, and no short-run plan should be made unless it contributes to the achievement of the relevant long-range plan. Much waste arises from decisions about immediate situations that fail to consider their effect on more remote objectives.

Responsible managers should continually review and revise immediate decisions to determine whether they contribute to long-range programs, and subordinate managers should be regularly briefed on long-range plans so that they will make decisions consistent with the company's long-range goals. Doing this is far easier than to correct inconsistencies later, especially since short-term commitments tend to lead to further commitments along the same line.

OBJECTIVES

Objectives were defined earlier as the important ends toward which organizational and individual activities are directed. Since writers and practitioners make no clear distinction between the terms *goals* and *objectives*, they are used interchangeably in this book. Within the context of the discussion, it will become clear whether the objectives are long term or short term, broad or specific. The emphasis is on **verifiable** objectives, which means that at the end of the period, it should be possible to determine whether or not the objective has been achieved. The goal of every manager is to create a surplus (in business organizations, this means profit). Clear and verifiable objectives facilitate measurement of the surplus as well as the effectiveness and efficiency of managerial actions.

An objective is **verifiable** when at the end of the period one can determine whether or not it has been achieved.

The Nature of Objectives

Objectives state end results, and overall objectives need to be supported by sub-objectives. Thus, objectives form a hierarchy as well as a network. Moreover, organizations and managers have multiple goals that are sometimes incompatible and may lead to conflicts within the organization, within the group, and even within individuals. A manager may have to choose between short- and longterm performance and personal interests may have to be subordinated to organizational objectives.

Hierarchy of objectives

As Figure 4-3 shows, objectives form a hierarchy, ranging from the broad aim to specific individual objectives. The zenith of the hierarchy is the purpose or mission, which has two dimensions. First, there is the social purpose such as contributing to the welfare of people by providing goods and services at a reasonable price. Second, there is the mission or purpose of the business, which might be to furnish convenient, low-cost transportation for the average person. The stated mission might be to produce, market, and service automobiles. As you will notice, the distinction between purpose and mission is a fine one, and therefore many writers and practitioners do not differentiate between the two terms. At any rate, these aims are, in turn, translated into general objectives and strategies such as designing, producing, and marketing reliable, low-cost, fuel-efficient automobiles.

The next level of the hierarchy contains more specific objectives such as those in the **key result areas**. These are the areas in which performance is essential for the success of the enterprise. More recent business terminology for the same concept is key performance indicator (KPI). Each company will monitor its own KPIs. These are often similar within an industry and may also be similar across industries on some measures (i.e., customer satisfaction).

Key result area An area in which performance is essential for the success of the enterprise.

Although there is no complete agreement on what the key result areas of a business should be—and they may differ between enterprises—Peter F. Drucker suggests the following: market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility.[7] More recently, however, two other key result areas have become of strategic importance: service and quality.

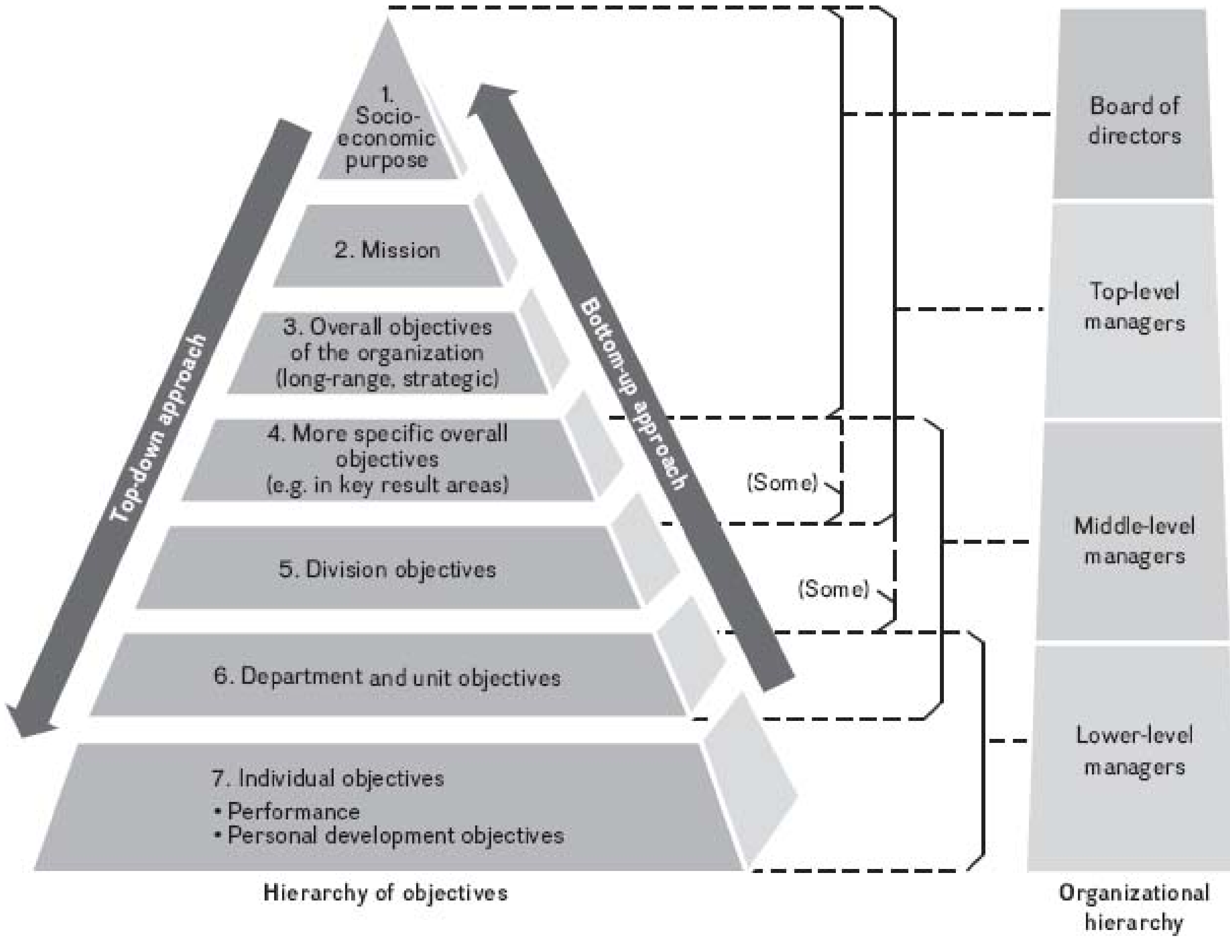

FIGURE 4-3 Relationship of objectives and the organizational hierarchy

Adapted from H. Weihrich and J. Mendleson*, Management: An MBO Approach *(Dubuque, IA: Wm. C. Brown Co., 1978), p. xi. Used with permission.

Examples of objectives for key result areas are the following: to obtain a 10 percent return on investment by the end of calendar year 2021 (profitability); to increase the number of units of product X produced by 7 percent by June 30, 2020, without raising costs or reducing the current quality level (productivity).

The objectives have to be further translated into those of divisions, departments, and units down to the lowest level of the organization.

Setting Objectives and the Organizational Hierarchy[8]

As Figure 4-3 shows, managers at different levels in the organizational hierarchy are concerned with different kinds of objectives. The board of directors and top-level managers are very involved in determining the purpose, the mission, and the overall objectives of the firm as well as the more specific overall objectives in the key result areas. Mid-level managers, such as the vice president or manager of marketing or the production manager, are involved in the setting of key result area objectives, division objectives, and departmental objectives. The primary concern of lower-level managers is setting the objectives of departments and units as well as of their subordinates. Although individual objectives, consisting of performance and development goals, are shown at the bottom of the hierarchy, managers at higher levels also should set objectives for their own performance and development.

There are different views about whether an organization should use the top-down or the bottom-up approach in setting objectives, as indicated by the arrows in Figure 4-3. In the top-down approach, upper- level managers determine the objectives for subordinates, while in the bottom-up approach subordinates initiate the setting of objectives for their positions and present them to their supervisor.

Innovative Perspective

Google is famous for launching new businesses in potential future growth areas (e.g., autonomous cars, mobile operating systems, etc.). In 2015, Google formed a new holding company, Alphabet, in which all the current and future businesses that emanate from this organization can enjoy clear leadership and be run independently with oversight and assistance from the Alphabet CEO, Larry Page, and president, Sergey Brin. This organizational form allows for greater scale for Alphabet to pursue new opportunities while still seeking synergies between the subsidiaries.

Proponents of the top-down approach suggest that the total organization needs direction through corporate objectives provided by the chief executive officer (in conjunction with the board of directors). Proponents of the bottom-up approach, on the other hand, argue that top management needs to have information from lower levels in the form of objectives. In addition, employees are likely to be highly motivated by and committed to goals that they initiate. Personal experience has shown that the bottom-up approach is underutilized and that either approach alone is insufficient.

Multiplicity of objectives

Objectives are normally multiple. For example, merely stating that a university's mission is education and research is not enough. It would be much more accurate (but still not verifiable) to list the overall objectives:

Attracting highly motivated students

- Offering basic training in the liberal arts and sciences as well as a range of professional fields
- Granting postgraduate degrees to qualified candidates
- Attracting highly regarded professors
- Creating and organizing new knowledge through research
- Operating as a private school supported principally through tuition and gifts of alumni and friends

Likewise, at every level in the hierarchy of objectives, goals are likely to be multiple. Some people think that a manager cannot effectively pursue more than two to five objectives. The argument is that too many objectives tend to dilute the drive for their accomplishment. But the limit of two to five objectives seems too arbitrary; managers might pursue more significant objectives. It would be wise to state the relative importance of each objective so that major goals receive more attention than lesser ones. At any rate, the number of objectives managers should realistically set for themselves depends on how much they will do themselves and how much they can assign to subordinates, thereby limiting their role to one of assigning, supervising, and controlling.

How to Set Objectives[9]

Without clear objectives, managing is haphazard. No individual and no group can expect to perform effectively and efficiently unless there is a clear aim. Table 4-1 illustrates some objectives and how they can be restated in a way that allows measurement.

TABLE 4-1 Examples of nonverifiable and verifiable objectives

Nonverifiable objective	Verifiable objective
1. To make a reasonable profit	1. To achieve a return on investment of 12 percent at the end of the current fiscal year
2. To improve communication	2. To issue a two-page monthly newsletter beginning July 1, 2005, involving not more than 40 working hours of preparation time (after the first issue)
3. To improve productivity of the production department	3. To increase production output by 5 percent by December 31, 2005, without additional costs while maintaining the current quality level
4. To develop better managers	4. To design and conduct a 40-hour in-house program on the "fundamentals of management" to be completed by October 1, 2005, involving not more than 200 working hours of the management development staff and with at least 90 percent of the 100 managers passing the exam (specified)
5. To install a computer system	5. To install a computerized control system in the production department by December 31, 2005, requiring not more than 500 working hours of systems analysis and operating with not more than 10 percent downtime during the first

	three months or 2 percent thereafter

Quantitative and qualitative objectives

To be measurable, objectives must be verifiable. This means that one must be able to answer this question: At the end of the period, how do I know if the objective has been accomplished? For example, the objective of making a reasonable profit (Table 4-1) does not state how much profit is to be made, and what is reasonable to the subordinate may not be at all acceptable to the superior. In the case of such a disagreement, it is of course the subordinate who loses the argument. In contrast, a return on investment of 12 percent at the end of the current fiscal year can be measured. It answers these questions: how much or what or when?

At times, stating results in verifiable terms is more difficult. This is especially true when it involves the objectives for staff personnel and in government. For example, installing a computer system is an important task, but “to install a computer system” is not a verifiable goal. However, suppose the objective is “to install a computerized control system (with certain specifications) in the production department by December 31, with an expenditure of not more than 500 working hours.” Then, goal accomplishment can be measured. Moreover, quality can also be specified in terms of computer downtime such as “the system shall be operational 90 percent of the time during the first two months of operation.”

The list of objectives should not be too long*Guidelines for setting objectives*

Setting objectives is indeed a difficult task. It requires intelligent communication by management and buy-in by employees. The guidelines shown in Table 4-2 will help managers in setting their objectives.

TABLE 4-2 Checklist of manager objectives

If the objectives meet the criterion, write “+” in the box on the right of the statement. If they do not, mark “–” in the box.

1. Do the objectives cover the main features of my job?	□
2. Is the list of objectives too long? If so, can I combine some objectives?	□
3. Are the objectives verifiable, that is, will I know at the end of the period whether they have been achieved?	□
4. Do the objectives indicate:	
(a) quantity (how much)?	□
(b) quality (how well or specific characteristics)?	□
(c) time (when)?	□
(d) cost (at what cost)?	□
5. Are the objectives challenging yet reasonable?	□
6. Are priorities assigned to the objectives (ranking, weight, etc.)?	□
7. Does the set of objectives also include:	
(a) improvement objectives?	□
(b) personal development objectives?	□
8. Are the objectives coordinated with those of other managers and organizational units?	□
Are they consistent with the objectives of my superior, my department, and the company?	□
9. Have I communicated the objectives to all who need to be informed?	□
10. Are the short-term objectives consistent with the long-term aims?	□
11. Are the assumptions underlying the objectives clearly identified?	□
12. Are the objectives expressed clearly and are they in writing?	□
13. Do the objectives provide for timely feedback so that I can take any necessary corrective steps?	□
14. Are my resources and authority sufficient for achieving the	□

objectives?	
15. Have I given the individuals who are expected to accomplish the objectives a chance to suggest their objectives?	□
16. Do my employees have control over aspects for which they are assigned responsibility?	□

The list of objectives should not be too long, yet it should cover the main features of the job. As this chapter has emphasized, objectives should be verifiable and should state what is to be accomplished and when. If possible, the quality desired and the projected cost of achieving the objectives should be indicated. Furthermore, objectives should present a challenge, indicate priorities, and promote personal and professional growth and development. These and other criteria for good objectives are summarized in Table 4-2. Testing objectives against the criteria shown in the checklist is a good exercise for managers and aspiring managers.

Entrepreneurial Perspective

Interview with Bryant Tong, Managing Director with N^th Power[10]

As a venture capitalist with a leading Silicon Valley venture firm, N^th Power, Bryant Tong advises the entrepreneurs of the companies his firm finances in setting aggressive but attainable objectives or milestones. These milestones are not always related to financial targets, as the firms may take many months to develop saleable products. Still, the milestones are key and verifiable such as developing product prototypes, securing intellectual property protection for key products, filling out a management team with the best people, and beginning a sales cycle with potential customers. These objectives or milestones are often linked to additional rounds of financing and so the success of the firm is very much linked toward meeting them.

EVOLVING CONCEPTS IN MANAGEMENT BY OBJECTIVES[11]

MBO is now practiced around the world. Yet, despite its wide application, it is not always clear what is meant by MBO. Some still think of it as an appraisal tool; others see it as a motivational technique; still others consider MBO a planning and control device. In other words, definitions and applications of MBO differ widely. We define **MBO** as a comprehensive managerial system that integrates many key managerial activities in a systematic manner and is consciously directed toward the effective and efficient achievement of organizational and individual objectives. This view of MBO as a system of managing is not shared by all. While some still define MBO in a very narrow, limited way, we prefer to see it as a comprehensive goal-driven, success-oriented management system (Figure 4-4). Besides being used for performance appraisal, as an instrument for motivating individuals, and in strategic planning, there are still other managerial subsystems that can be integrated into the MBO process. They include human resource planning and development (staffing as well as individual and organization development), career planning (building on personal strengths and overcoming weaknesses), the reward system (paying for performance), budgeting (planning and controlling), and other managerial activities important for a specific position. These various managerial activities need to be integrated into a system. In short, MBO to be effective must be considered a way of managing (Figure 4-4) and not an addition to the managerial job.[12]

Management by objectives A comprehensive managerial system that integrates many key managerial activities in a systematic manner and is consciously directed toward the effective and efficient achievement of organizational and individual objectives.

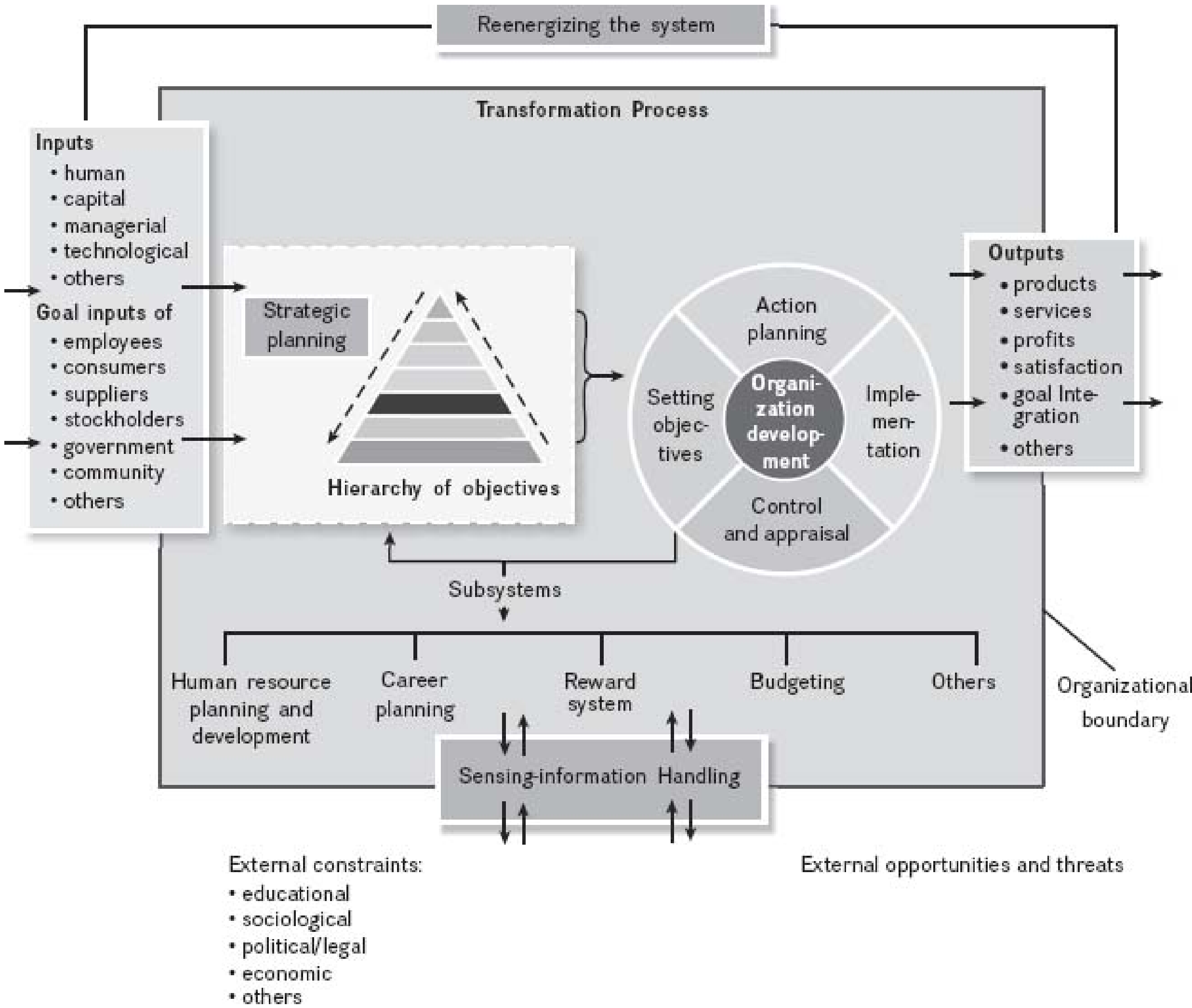

FIGURE 4-4 Systems approach to management by objectives

Adapted from Heinz Weihrich, *Management Excellence: Productivity through MBO* (New York: McGraw-Hill, 1985), p. 18.

Benefits and Weaknesses of Management by Objectives

Although goal-oriented management is now one of the most widely practiced managerial approaches, its effectiveness is sometimes questioned. Faulty implementation is often blamed, but another reason is that MBO may be applied as a mechanistic technique focusing on selected aspects of the managerial process without integrating them into a system.

Benefits of management by objectives

There is considerable evidence (much of it from laboratory studies) that shows the motivational aspects of clear goals. But there are other benefits:

- Improvement of managing through results-oriented planning
- Clarification of organizational roles and structures as well as delegation of authority according to the results expected of the people occupying the roles
- Encouragement of commitment to personal and organizational goals
- Development of effective controls that measure results and lead to corrective actions

Failures of management by objectives and some recommendations

Despite all its advantages, an MBO system has a number of weaknesses. Most are due to shortcomings in applying the MBO concepts. Failure to teach the philosophy of MBO is one of the weaknesses of certain programs. Managers must explain to subordinates what it is, how it works, why it is being done, what part it will play in appraising performance, and above all, how participants can benefit. The philosophy is built on the concepts of self-control and self-direction.

Failure to give guidelines to goal setters is often another problem. Managers must know what the corporate goals are and how their own activities fit in with them. Managers also need planning premises and knowledge of major company policies.

There is also the difficulty of setting verifiable goals with the right degree of flexibility. Participants in MBO programs report at times that the excessive concern with economic results puts pressure on individuals that may encourage questionable behavior. To reduce the probability of resorting to unethical means to achieve results, top management must agree to reasonable objectives, clearly state behavioral expectations, and give high priority to ethical behavior, rewarding it as well as punishing unethical activities.

In addition, emphasis on short-run goals can be done at the expense of the longer-range health of the organization. Moreover, the danger of inflexibility can make managers hesitate to change objectives, even if a changed environment would require such adjustments.

Other dangers include the overuse of quantitative goals and the attempt to use numbers in areas where they are not applicable, or they may downgrade important goals that are difficult to state in terms of end results. For example, a favorable company image may be the key strength of an enterprise, yet stating this in quantitative terms is difficult. There is also the danger of forgetting that managing involves more than goal setting.

But even with the difficulties and dangers of managing by objectives in certain situations, this system emphasizes in practice the setting of goals long known to be an essential part of planning and managing.

SUMMARY

Planning involves selecting the missions and objectives as well as the actions to achieve them. It requires decision-making, which means choosing a future course of action from among alternatives. Planning and controlling are closely interrelated, although they are discussed separately in this book. There are many types of plans such as missions or purposes, objectives or goals, strategies, policies, procedures, rules, programs, and budgets. Once an opportunity is recognized, a manager plans rationally by establishing objectives, making assumptions (premises) about the present and future environment, finding and evaluating alternative courses of action, and choosing a course to follow. Next, the manager must make supporting plans and devise a budget. These activities must be carried out with attention to the total environment. Short-range plans must of course be coordinated with long-range plans.

Objectives are the end points toward which activities are aimed. Objectives are verifiable, if it is possible at the end of the period to determine whether they have been accomplished. Objectives form a hierarchy, starting from corporate missions or purposes going down to individual goals. Managers can best determine the number of objectives they should realistically set for themselves by analyzing the nature of the job and how much they can do themselves and how much they can delegate. In any case, managers should know the relative importance of each of their goals.

MBO has been widely used for performance appraisal and employee motivation, but it is really a system of managing. Among its benefits, MBO results in better managing, often forces managers to clarify the structure of their organizations, encourages people to commit themselves to their goals, and helps develop effective controls.

Some of its weaknesses are that managers sometimes fail to explain the philosophy of MBO (which emphasizes self-control and self-direction) to subordinates or give them guidelines for their goal setting. In addition, goals themselves are difficult to set, tend to be short term, and may become inflexible despite changes in the environment. People, in their search for verifiability, may overemphasize quantifiable goals.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Planning
- Mission or purpose
- Objective or goal
- Strategy
- Policy
- Procedure
- Rule
- Program
- Budget

- Planning steps
- Hierarchy of objectives
- Key result areas
- Quantitative and qualitative objectives
- Verifiability
- Evolving concepts in MBO
- Systems approach to MBO
- Benefits of MBO
- Weaknesses of MBO
- Recommendations for improving MBO

FOR DISCUSSION

1. "Planning is looking ahead, and control is looking back." Comment.
2. Draw up a statement of policy and devise a brief procedure that might be useful in implementing it. Are you sure your policy is not a rule?
3. Take an organization that you know and identify its purpose or mission, even if it is not formally stated by the enterprise.
4. To what extent do you believe that managers you have known in business or elsewhere have a clear understanding of their objectives? If you think they do not, how would you suggest that they go about setting their objectives?
5. Some people object to defining long-term goals because they think that knowing what will happen over a long period is impossible. Do you believe this is an intelligent position to take? Why or why not?
6. Do you think that managing by objectives could be introduced in a government agency? A university? A college fraternity or sorority?
7. What are your five most important personal objectives? Are they long or short range? Are the objectives verifiable?
8. In your organization, what does your manager expect from you in terms of performance? Is it stated in writing? If you

wrote down your job objective and your boss wrote down what he or she expects of you, would the two be consistent?

9. How can MBO be applied to a new venture? Give an example.
10. Which company does a better job at managing by objective: Facebook or Google? Explain your position. Which company will be more successful in the next five years? Why?

EXERCISE/ACTION STEPS

In this chapter, the overall objectives of a university were identified. Develop overall objectives for your university, for your college, and for the various departments in your college. Show how these objectives are interrelated to form a network.

ONLINE RESEARCH

1. Use a search engine to look for "management by objectives" and identify how MBO is used: as a planning tool? For managerial appraisal? For motivating people? In conjunction with strategic planning? For developing managers?
2. Search the Internet for the term "budget" and discuss your findings with the class.

Management Case

Developing Verifiable Goals

The division manager had recently heard a lecture on MBO. His enthusiasm, kindled at that time, grew the more he thought about it. He finally decided to introduce the concept and see what headway he could make at his next staff meeting.

He recounted the theoretical developments in this technique, cited the advantages to the division of its application, and asked his subordinates to think about adopting it.

It was not as easy as everyone had thought. At the next meeting, several questions were raised. “Do you have division goals assigned by the president to you for next year?” the finance manager wanted to know.

“No, I do not,” the division manager replied. “I have been waiting for the president’s office to tell me what is expected, but they act as if they will do nothing about the matter.”

“What is the division to do then?” the manager of production asked, rather hoping that no action would be indicated.

“I intend to list my expectations for the division,” the division manager said. “There is not much mystery about them. I expect $30 million in sales; a profit on sales before taxes of 8 percent; a return on investment of 15 percent; an ongoing program in effect by June 30, with specific characteristics I will list later, to develop our own future managers; the completion of development work on our XZ model by the end of the year; and stabilization of employee turnover at 5 percent.”

The staff was stunned that their superior had thought carefully about these verifiable objectives and stated them with such clarity and assurance. They were also surprised about his sincerity in wanting to achieve them.

“During the next month, I want each of you to translate these objectives into verifiable goals for your own functions. Naturally, they will be different for finance, marketing, production, engineering, and administration. However you state them, I will expect them to add up to the realization of the division goals.”

Questions

1. Can a division manager develop verifiable goals or objectives when they have not been assigned to him or her by the president? How? What kind of information or help do you believe is important for the division manager to have from headquarters?
2. Did the division manager set the goals in the best way? What would you have done?

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* Often, the term vision is mentioned in connection with the discussion of mission. Popular books on management discuss concepts such as goal setting, team management, and orientation toward the future in connection with the discussion of vision.

* The word problems might be used instead of *opportunities*. However, a state of disorder or confusion and a need for a solution to achieve a given goal can more constructively be regarded as an opportunity.

CHAPTER 5

Strategies, Policies, and Planning Premises

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Explain the nature and purpose of strategies and policies
2. Describe the strategic planning process
3. Understand the TOWS Matrix and the business portfolio matrix
4. Describe some major kinds of strategies and policies and the hierarchy of strategies
5. Identify Porter's generic strategies
6. Discuss the nature of premises and forecasts
7. Analyze your own or your ideal company with the strategy tools discussed

Today, most business enterprises engage in strategic planning, although the degree of sophistication and formality varies considerably. Conceptually, strategic planning is deceptively simple: analyze the current and expected future situation, determine the direction of the firm, and develop means for achieving the mission. In reality, this is an extremely complex process that demands a systematic approach for identifying and analyzing factors external to the organization and matching them with the firm's capabilities.

Planning is done in an environment of uncertainty. No one can be sure if the external as well as the internal environment will be the same next week, much less several years from now. Therefore, people make assumptions or forecasts about the anticipated environment. Some of the forecasts become assumptions for other plans. For example, the gross domestic product forecast becomes the assumption for sales planning, which in turn becomes the basis for production planning and so on.

In this chapter, you will learn about the nature and purpose of strategies and policies, the strategic planning process (which identifies the critical aspects of formulating a strategy), the TOWS Matrix (a tool for systematically integrating external and internal factors), the business portfolio matrix (a tool for allocating resources), some major kinds of strategies and policies, the hierarchy of strategies, and generic strategies. Because plans are made in an environment of uncertainty, you will also learn about premising and forecasting.

THE NATURE AND PURPOSE OF STRATEGIES AND POLICIES

Strategies and policies are closely related. Both give direction, both are the framework for plans, both are the basis of operational plans, and both affect all areas of managing.

The term *strategy* (derived from the Greek word *strategos*, meaning "general") has been used in different ways. Authors' applications differ in at least one major aspect. Some writers focus on both the end points (mission/purpose and goals/objectives) and the means of achieving them (policies and plans). Others emphasize the means to the ends in the strategic process rather than the ends per se. As pointed out in Chapter 4, **strategy** refers to the determination of the mission (or the fundamental purpose) and the basic long-term objectives of an enterprise, followed by the adoption of courses of action and allocation of resources necessary to achieve these aims. Therefore, objectives are a part of strategy formulation.

Strategy The determination of the mission or purpose and the basic longterm objectives of an enterprise, followed by the adoption of courses of action and allocation of resources necessary to achieve these aims.

Policies are general statements or understandings that guide managers' thinking in decision-making. They ensure that decisions fall within certain boundaries. They usually do not require action but are intended to guide managers in their commitment to the decision they ultimately make.

Policies General statements or understandings that guide managers' thinking in decision-making.

For example, corporate policies that emphasize diversity and equity in hiring and pay have become more widespread in recent years. These policies do not dictate decisions on individual hiring or pay decisions; they do, however, guide managers' decisions on these key issues that help the organization achieve higher performance, better morale, and broader societal benefits.

The essence of policy is discretion. Strategy, on the other hand, concerns the direction in which human and material resources will be applied in order to increase the chance of achieving selected objectives.

Leadership Perspective

Lee Kun-Hee Leads the Value- and Policy-driven Samsung Company for Global Recognition[1]

The Samsung Group is a large Korean conglomerate that focuses on electronics and financial services. In the past, many Korean companies encountered difficulties because they diversified into unrelated fields. In its new approach to management, Samsung tries to avoid the pitfalls of other companies. At the turn of the century, Samsung initiated a policy designed to make the company a leader in its field, competing against firms such as Sony of Japan.

The company is driven by its values and its philosophy, which states: “We will devote our people and technologies to create superior products and services, thereby contributing to a better global society.”[2] Samsung realizes the importance of its people and the use of the latest technologies for achieving success in the marketplace. At the same time, it is aware of the responsibility to contribute to society not only in Korea, but also worldwide.

Chairman Lee Kun-Hee laid the groundwork for a new approach to management that considers defects a crime. Quality, superior products, and excellent customer service are considered key factors for success in the very competitive environment that has been dominated by Japanese firms. With its “digital management” approach, Samsung attempts to exploit the opportunities created by the information age technologies.

Samsung’s values, philosophies, and policies as well as its goal of becoming a global leader in its field have attracted many Korean university students. Will these young people help the company to successfully compete in the global environment?

To be effective, strategies and policies must be put into practice by means of plans with increasing details until they get down to the nuts and bolts of operation. The action plans through which strategies are executed are known as *tactics.* Strategies must be supported by effective tactics.

THE STRATEGIC PLANNING PROCESS

Although specific steps in the formulation of a strategy may vary, the process can be built, at least conceptually, around the key elements (Figure 5-1) and elaborated in the following:

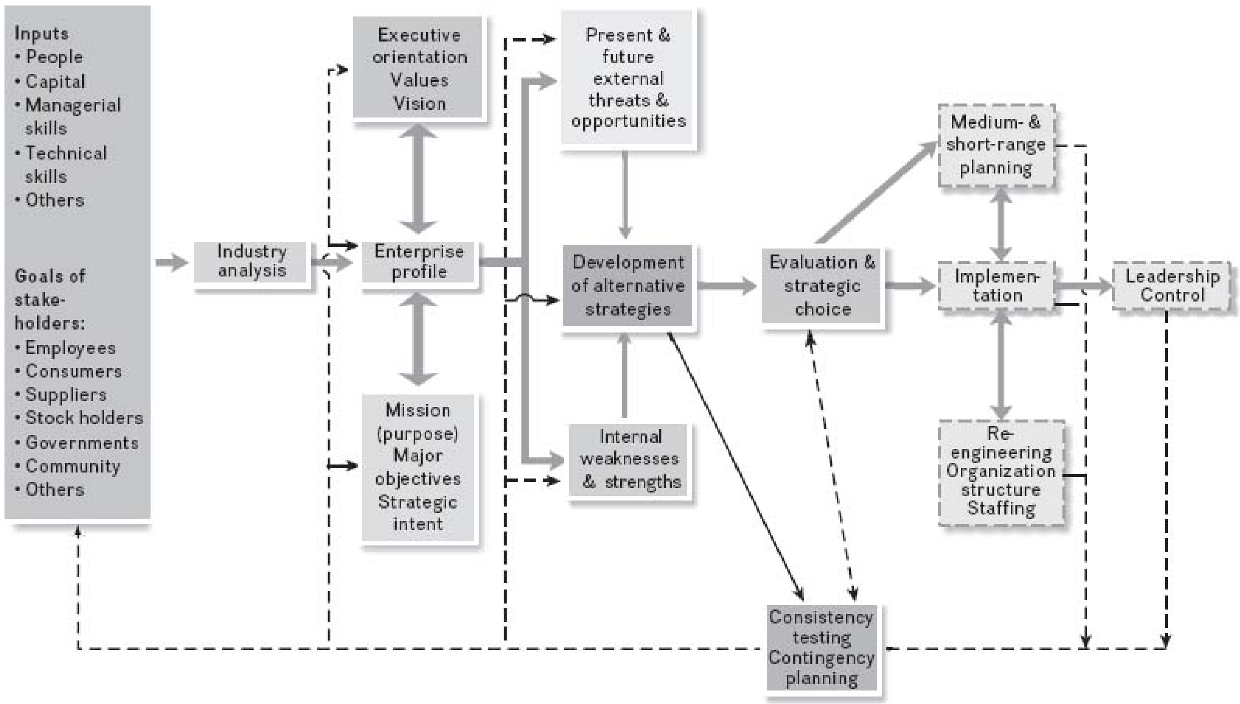

FIGURE 5-1 Strategic Planning Process

Inputs to the Organization

The various organizational inputs, including the goal inputs of the claimants, were discussed in Chapter 1 and need no elaboration.

Industry Analysis

As will be pointed out later in this chapter, Michael Porter suggests that the formulation of a strategy requires the evaluation of the attractiveness of an industry by analyzing the external environment. The focus should be on the kind of competition within an industry, the possibility of new firms entering the market, the availability of substitute products or services, and the bargaining positions of the suppliers as well as the buyers or customers.

Enterprise Profile

The enterprise profile is usually the starting point for determining where the company is and where it should go. Thus, top managers determine the enterprise's mission and clarify its geographic orientation such as whether it should operate in selected regions—throughout the home country or even in different countries. In addition, managers assess the competitive position of their firm.

Orientation, Values, and Vision of Executives[3]

The enterprise profile is shaped by people, especially executives, and their orientation and values are important for formulating the strategy. They set the organizational climate and they determine the direction of the firm through their vision that answers the question "What do we want to become?"[4] Consequently, their values, their preferences, and their attitudes toward risks have to be carefully examined because they have an impact on the strategy. For example, even if the alternative of distributing spirits may appear profitable, executives may decide against such a strategy because of top management's value system that condemns alcoholic beverages.

Innovative Perspective

Apple's Strategy for Innovation[5]

In August 2012, Apple became the most valuable company in the history of the world commanding a market valuation of well over $600 billion. What enabled Apple to achieve such great success in the market place? Was its strategy exceptionally superior or its execution perfect? How did it achieve its sustainable competitive advantage that allowed it to create such value? One of the factors, if not the leading factor, was Apple's dedication to distinctive design and superior user interface with its products. Apple's innovative capacity tied in large part to its late founder, Steve Jobs, drove it to develop not only new products in its main business (e.g. computers), but also to leverage its capacity to create user-friendly designs to enter new businesses (e.g., music devices and delivery such as iPod and iTunes and mobile phones such as iPhone, and new segments of content consumption such as iPad). Each of these monumental new business successes was driven by an understanding of what the customer implicitly wanted and then putting in place a process of innovation and relentless dedication to design that led to customer craving of these products. Apple's new innovative iWatch appears to be another example of dedication to distinctive design that anticipates customers' needs. Time will tell if Apple can maintain its capability to delight its customers with its innovative products. As Apple's value hovers around $1 trillion today, it seems clear that its capacity to innovate and products that customers demand have continued.

Mission (Purpose), Major Objectives, and Strategic Intent[6]

The *mission*, also sometimes called the purpose, is the answer to the question "What is our business?" The major *objectives* are the end points toward which the activities of the enterprise are directed. (These topics were discussed in the previous chapter.)

Mission A statement that answers the question "What is our business?"

Strategic intent is the commitment to win in the competitive environment. Professors Gary Hamel and C. K. Prahalad analyzed companies that had achieved global leadership.[7] They found that these firms had an obsession with winning not only at the top level, but also throughout the organization. This obsession is called strategic intent and is illustrated by Komatsu's intent to "encircle Caterpillar," its main rival, or Canon's idea to "beat Xerox," or Honda's intent to become an automotive pioneer, "a second Ford." The authors point out that strategic intent requires personal effort and commitment. The intent statement is stable over time and focuses on the essence of winning.

Strategic intent The commitment to win in the competitive environment.

www.caterpillar.com
www.xerox.com
www.honda.com
www.ford.com

Entrepreneurial Perspective

Interview with Jon B. Fisher, Cofounder of Bharosa, an Oracle Corporation company[8]

Jon Fisher is a serial Silicon Valley entrepreneur, founding several technology firms, the most recent being Bharosa. Bharosa is an enterprise security software firm that was purchased by Oracle Corporation in 2007. Mr. Fisher's take on entrepreneurism is centered on what he calls "strategic entrepreneurism." He defines strategic entrepreneurism as creating and growing a company with the aim of having it acquired by a dominant firm in the industry. In our communication, he elaborated, "Identify the companies that you believe would most benefit from acquiring your company. Of course, you can never control what another company does, but by understanding which company may acquire you and what their own needs may be, you can steer your company in their direction as an acquisition target. Then, when your company gets acquired by this larger corporation, everyone will remark on how lucky you are, not knowing that this was your goal from the beginning." Fisher's strategic entrepreneurism is his trademark approach to the strategic planning process of industry analysis, building an enterprise profile to suit the industry the firm is operating in, analyzing strategic alternatives, and making a strategic choice early in the life of an enterprise. His entrepreneurial success is linked to his strategic intent of "beginning with the end in mind."

A classic serial entrepreneur, Mr. Fisher now leads his new venture, CrowdOptic which focuses on developing middlewear software that applies AI to provide "Intelligent Live Streaming" to create actionable information for enterprise clients.[9]

Present and Future External Environment

The present and future external environment must be assessed in terms of threats and opportunities. The evaluation focuses on the competitive situation as well as on economic, social, political, legal, demographic, and geographic factors. In addition, the environment is scanned for technological developments, for products and services on the market, and for other pertinent factors in determining the competitive situation of the enterprise.

Internal Environment [10]

Similarly, the firm's internal environment should be audited and evaluated with respect to its resources and its weaknesses and strengths in research and development, production, operation, procurement, marketing, products, and services. Other internal factors that are important for formulating a strategy should be assessed, including human and financial resources as well as the company image, organization structure and climate, planning and control system, and relations with customers.

Development of Alternative Strategies

Strategic alternatives are developed on the basis of an analysis of the external and internal environments. An organization may pursue many different kinds of strategies.[11] It may *specialize* or *concentrate*, as the Korean Hyundai did by producing lower-priced cars (in contrast to General Motors, e.g., which has a complete product line ranging from inexpensive to luxury cars). Under the leadership of its chief executive, Chung Mong Koo, the company introduced the competitively priced sport utility vehicle Santa Fe, which was well received by the market.[12]

www.hyundai.com
www.gm.com

Alternatively, a firm may *diversify*, extending the operation into new and profitable markets. Kmart Corporation formed a Specialty Retailing Group that included stores such as Walden Book Company, Builders Square, Designer Depot, and PayLess Drug Stores. Still another strategy is *international expansion* to other countries (Chapter 3). Other examples of possible strategies are *joint ventures* and *strategic alliances*, which may be appropriate for some firms.[13] They are especially suitable for big undertakings in which firms have to pool their resources, as illustrated by the joint venture of General Motors and Toyota to produce small cars in California.[14]

www.kmart.com
www.bordersgroupinc.com (Walden)
www.paylessdrug.com
www.toyota.com
www.nummi.om

Under certain circumstances, a company may have to adopt a *liquidation* strategy by terminating an unprofitable product line or even dissolving the firm, as illustrated by the Savings and Loan Associations, or declare bankruptcy, as exemplified by the energy company Enron. But, in some cases, liquidation may not be necessary; a *retrenchment* strategy may be sufficient. In such a situation, the company may curtail its operation temporarily.

Bowman and Hurry (1993)[15] applied Options Theory[16] to strategy making, equating resource investments by the organization to the development of options on future courses of action. By developing a portfolio of strategic options through resource investments, the firm can create value and create alternatives to "strike" various options and pursue new strategic alternatives that appear most promising. Options are most valuable when there exists high uncertainty in the future and when there is time for the expiration of the option and when the option is on a potentially large outcome. The deployment of resources to create options to make sustained progress on existing products are referred to as incremental options, while resource investments that create a path to build potential new products are referred to as flexibility options.

These are just a few examples of possible strategies. In practice, companies, especially large ones, pursue a combination of strategies.

Entrepreneurial Perspective

Interview with Art Ciocca, Chairman of the Wine Group[17]

The Wine Group is the third largest wine company in the world by volume. Mr. Art Ciocca[18] is the chairman of the Wine Group and founded it with a management buyout of the wine assets of the Coca-Cola Bottling Company of New York in 1981. The Wine Group gained fame and market share with its innovative "Wine in a Box" product. The move toward this product was in large part a response to its recognition of its competitive price disadvantage in glass bottles relative to larger firms in the industry. Its innovation of the high-quality wine in a box product allowed it to grow rapidly and efficiently with products that met its customers' demands. Throughout its history, Ciocca has led the Wine Group in successful strategic choices (e.g., the wine cooler market demand of the mid- to late 1980s) with a careful analysis of its competitors' strengths and its own ability to pick the markets where it could compete effectively and profitably. Ciocca envisions entrepreneurial management as a practice that can and should be employed in organizations of all sizes, not just new ventures.

Evaluation and Choice of Strategies[19]

Various strategies have to be carefully evaluated before the choice is made. Strategic choices must be considered in light of the risks involved in a particular decision. Some profitable opportunities may not be pursued because failure in a risky venture could result in bankruptcy of the firm. Another critical element in choosing a strategy is timing. Even the best product may fail, if it is introduced to the market at an inappropriate time. Moreover, the reaction of competitors must be taken into consideration. When IBM reduced the price of its personal computer in reaction to the success of Apple’s Macintosh computer, firms producing IBM-compatible computers had little choice but to reduce their prices as well. This illustrates the interconnection of the strategies of firms in the same industry.

Consistency Testing and Contingency Planning

The last key aspect of the strategic planning process is testing for consistency and preparing for contingencies. During all phases of the strategic planning process, consistency testing is essential. Since the future cannot be predicted with a high degree of certainty, contingency plans need to be prepared. For example, a strategy may be prepared with the assumption that the gross domestic product may increase 3 percent annually over the next three years. A contingency plan may also be made in which the scenario includes a major recession.

Medium- and Short-Range Planning, Implementation through Organizing, Staffing, Leading, and Controlling

Although not a part of the strategic planning process (shown by broken lines in Figure 5-1), medium- and short-range planning as well as implementation of the plans must be considered during all phases of the process. Implementation of the strategy requires organizing, perhaps even reengineering the organization (Part 3), staffing, that is, filling and keeping filled the positions in the organization structure (Part 4), and providing leadership through motivation and effective communication (Part 5). Controls must also be installed for monitoring performance against plans (Part 6). The importance of feedback is shown by the loops in the model. (These aspects of strategy implementation are discussed later in the book.)

THE TOWS MATRIX: A MODERN TOOL FOR ANALYSIS OF THE SITUATION

Today, strategy designers are aided by a number of matrices that show the relationships of critical variables, such as the Boston Consulting Group's business portfolio matrix (discussed later). For many years, the SWOT analysis has been used to identify a company's strengths, weaknesses, opportunities, and threats. The TOWS Matrix has been introduced for analyzing the competitive situation of the company or even of a nation that leads to the development of four distinct sets of strategic alternatives.[20]

The TOWS Matrix has a wider scope and a different emphasis from the business portfolio matrix. The former does not replace the latter. The TOWS Matrix is a conceptual framework for a systematic analysis that facilitates matching of the external threats and opportunities with the internal weaknesses and strengths of the organization.

It is common to suggest that companies should identify their strengths and weaknesses as well as the opportunities and threats in the external environment; but, what is often overlooked is that combining these factors may require distinct strategic choices. To systematize these choices, the TOWS Matrix has been proposed, where *T* stands for threats, *O* for opportunities, *W* for weaknesses, and *S* for strengths. The TOWS model starts with the threats *(T* in TOWS), because in many situations a company undertakes strategic planning as a result of a perceived crisis, problem, or threat.

Four Alternative Strategies

Figure 5-2 presents the four alternative strategies of the TOWS Matrix*. The strategies are based on the analysis of the external environment (threats and opportunities) and the internal environment (weaknesses and strengths):

1. The *WT strategy* aims to minimize both weaknesses and threats and may be called the Mini-Mini (for "minimize-minimize") strategy. It may require that the company, for example, form a joint venture, retrench, or even liquidate.
2. The *WO strategy* attempts to minimize the weaknesses and maximize the opportunities. Thus, a firm with weaknesses in some areas may either develop those areas within the enterprise or acquire the needed competencies (such as technology or persons with needed skills) from outside, in order to enable it to take advantage of opportunities in the external environment.
3. The *ST strategy* is based on using the organization's strengths to deal with threats in the environment. The aim is to maximize the former while minimizing the latter. Thus, a company may use its technological, financial, managerial, or marketing strengths to cope with the threats of a new product introduced by its competitor.
4. The *SO strategy*, which capitalizes on a company's strengths to take advantage of opportunities, is the most desirable. Indeed, it is the aim of enterprises to move from other positions in the matrix to this one. If they have weaknesses, they will strive to overcome them, making them strengths. If they face threats, they will cope with them so that they can focus on opportunities.

Internal factors / External factors	Internal strengths (S) e.g., strengths in management, operations, finance, marketing, R&D, engineering	Internal weaknesses (W) e.g., weaknesses in areas shown in the box of "strengths"
External opportunities (O): (Consider risks also) e.g., current and future economic conditions, political and social changes, new products, services, and technology	SO strategy: Maxi-Maxi Potentially the most successful strategy, utilizing the organization's strengths to take advantage of opportunities	WO strategy: Mini-Maxi e.g., developmental strategy to overcome weaknesses in order to take advantage of opportunities
External threats (T): e.g., lack of energy, competition, and areas similar to those shown in the "opportunities" box above	ST strategy: Maxi-Mini e.g., use of strengths to cope with threats or to avoid threats	WT strategy: Mini-Mini e.g., retrenchment, liquidation, or joint venture to minimize both weaknesses and threats

FIGURE 5-2 TOWS Matrix for strategy formulation

Time Dimension and the TOWS Matrix

So far, the factors displayed in the TOWS Matrix pertain to analysis at a particular point in time. However, external and internal environments are dynamic: some factors change over time, while others change very little. Hence, strategy designers must prepare several matrices at different points in time (Figure 5-3). Thus, one may start with a TOWS analysis of the past, continue with an analysis of the present, and perhaps most important, focus on different time periods (T1, T2, etc.) in the future.

Application of the TOWS Merger Matrix for Mergers, Acquisitions, Joint Ventures, and Alliances

Companies around the world now use the TOWS Matrix; the matrix has also been included in several modern textbooks on strategic management.[21] Recently, the TOWS Matrix concept has been introduced for planning mergers, acquisitions, joint ventures, and alliances.[22] Whenever two partners consider joint activities, it is prudent to analyze the strengths and weaknesses for each partner as well as their opportunities and threats. Moreover, their alternative strategies *before* their association should be considered: the two TOWS Matrices provide a better understanding of the prospective partners before the actual linkage. For example, complementary strengths and weaknesses could result in a competitive advantage for both companies. On the other hand, repetition and overlap may result in duplication of efforts. After the two matrices are evaluated, a third matrix should be developed for the partnership. This is especially important for acquisitions and mergers because of the relative permanency of the resulting entity. Preparing the three TOWS Matrices can also allow potential problems to be identified in more loosely coupled partnerships such as a strategic alliance.[23]

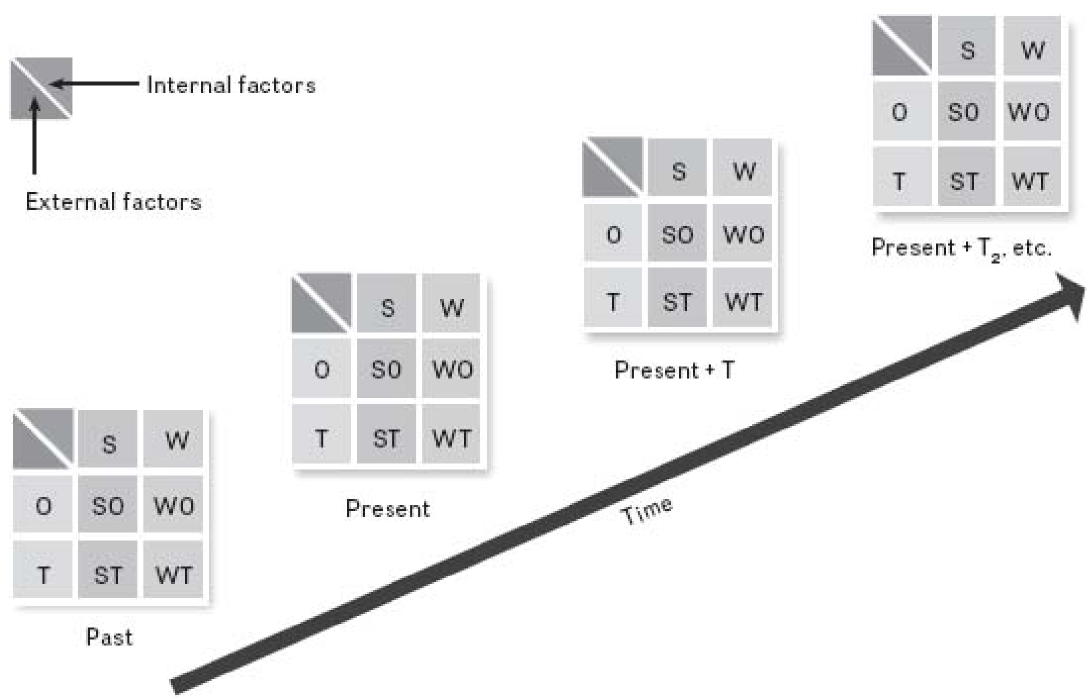

FIGURE 5-3 Dynamics of the TOWS Matrix

BLUE OCEAN STRATEGY: IN PURSUIT OF OPPORTUNITIES IN UNCONTESTED MARKETS[24]

In the TOWS Matrix discussion, it was shown that companies could use their strengths and overcome their weaknesses by taking advantage of opportunities and coping with threats. It was suggested that the potentially most successful strategy is to use the enterprise's strengths and to take advantage of opportunities.

In the recently published book *Blue Ocean Strategy - How to Create Uncontested Market Space and Make the Competition Irrelevant*, the authors W. Chan Kim and Renee Mauborgne specifically suggest to focus on opportunities that explore uncontested waters (opportunities) in the "blue ocean" rather than trying to beat the competition in the existing industry or the "red ocean." The red ocean may be illustrated by the "bloody" current competition in the automobile industry, in which companies try to be a little better than their competitor by, for example, having a lower cost structure. In contrast, the blue ocean strategy may be illustrated by eBay's online auction by entering a market without competitors. Let us explore further the differences between the red and blue ocean strategies.

Traditional competitive strategies, operating in the red ocean, aimed at beating the competition in an existing market. Companies tried to be better than their competitors. Michael Porter at Harvard suggested that companies have to make a strategic choice between differentiation by offering the customers something special for which they are willing to pay a premium price or having a lower cost structure as exemplified by Walmart (discussed later in this chapter).

The blue ocean strategy, by contrast, focuses on the uncontested market by offering a product or service that is unique in a market space where there is no competitor, thus making competition irrelevant, as the subtitle of the book "Blue Ocean Strategy" suggests. Rather than competing in an existing demand situation, the blue ocean strategy attempts to create and develop new demand for its products or services. Moreover, the successful company will pursue strategies that focus on differentiation and low cost, as was illustrated by the introduction of the Lexus car that had differentiation features of luxury cars but at a lower price. This way, Toyota, the maker of Lexus, created value for the buyer. Value innovation is more than simply innovation. It is a strategy that requires that the total company is committed to the creation of value for the customer by offering something special with relatively low cost and price (17).

To capture the blue ocean and to make the competition irrelevant, Kim and Mauborgne introduce a diagnostic tool and framework for action called *The Strategic Canvas.* This tool identifies the important relevant factors in an industry in which companies compete. These factors vary from industry to industry. In the airline industry, the factors may, for example, include the price of the airfare, the meals, the friendliness of the service, and so on. Southwest Airline, a successful airline in America, rates low in price, meals, and connections at airport hubs, but it rates higher in service friendliness and frequency of flights than other airlines. Because Southwest had little competition on these criteria where it had high ratings, it pursued a blue ocean strategy.

For companies aiming for a blue ocean strategy, four actions should be considered. First, identify and eliminate those factors that may be unimportant to the buyer. Second, if elimination is not an option, consider reducing those factors. Third, raise or strengthen those factors that are unique. Fourth, create new or new and unique factors that are wanted by the buyers but are ignored by the competitors. This was what Southwest Airlines and other enterprises did in charting a blue ocean strategy.

How can the blue ocean strategy be applied in formulating a strategy based on the TOWS Matrix in Figure 5-2? The traditional red ocean strategy can be exemplified by the strengths-threats (ST) strategy, whereby a company uses its strengths to cope with the threats created by the competition. Head-on competition often results in a bloodbath through a red ocean strategy. In contrast, the strengths-opportunities (SO) strategy, in which a company uses its strengths to take advantage of opportunities, would be an illustration of a blue ocean strategy. It is true that in the TOWS Matrix analysis opportunities in general were considered, while Kim and Mauborgne focus on unique opportunities that have been neglected by competitors.

There is another blue ocean strategy alternative, namely the WO strategy, in which a company realizes its weakness and recognized that one way to overcome the weakness is to search for unique opportunities to overcome its weakness. Often, a company with weaknesses may be in distress and then may be motivated to search intensely for opportunities that have not been exploited by its competitors, that is, adopting a blue ocean strategy.

In summary, companies adopting a blue ocean strategy may pursue both the SO as well as the WO alternative strategies (Figure 5-2). While it may be unavoidable to engage in the ST strategy, enterprises may be wise to first attempt to chart a blue ocean strategy to avoid the bloody confrontation resulting from the ST alternative.

Innovation Perspective

Zipcar[25]

One example of a company with a blue ocean strategy is Zipcar, a car-sharing company founded in Cambridge, Massachusetts. The company with a concept new in the United States focuses on an uncontested market by using wireless technology at strategically placed bases in various cities. The company uses a simple reservation system through which customers can view the availability of the car, which can be reserved online. Zipcar faces the big rental companies such as Hertz and Enterprise, “WeCar” in St. Louis, and “I-GO” in Chicago are also beginning to use a similar car-sharing concept. Firms in other countries do likewise. Therefore, to some extent the market is contested. The untapped market for Zipcar would be the use of the sharing concept partnering with other firms by offering, for example, boat sharing or car sharing in cities that do not have such services. The rapid rise of “ride sharing” by Uber and Lyft is putting pressure on the innovative “CarShare” model by Zipcar, as the process of creative destruction continues.

THE PORTFOLIO MATRIX: A TOOL FOR ALLOCATING RESOURCES

The Boston Consulting Group developed the business portfolio matrix.[26] Figure 5-4, a simplified version of the matrix, shows the linkages between the growth rate of the business and the relative competitive position of the firm identified by the market share. Businesses in the “question marks” quadrant, with a weak market share and a high growth rate, usually require cash investment so that they can become “stars,” the businesses in the high growth, strongly competitive position. These kinds of businesses have opportunities for growth and profit. The “cash cows,” with a strong competitive position and a low growth rate, are usually well established in the market; such enterprises are in a position to make their products at low costs. Therefore, their products provide the cash needed for their operation. The “dogs” are businesses with a low growth rate and a weak market share. These businesses are usually not profitable and generally should be disposed of.

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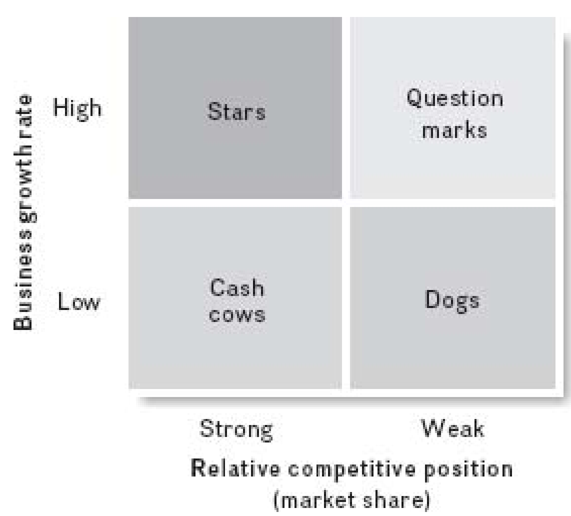

FIGURE 5-4 Business portfolio matrix

Adapted from *The Product Portfolio Matrix*, copyright © 1970, the Boston Consulting Group, Inc.

The portfolio matrix was developed for large corporations with several divisions that are often organized around strategic business units (discussed in Chapter 8). While portfolio analysis was popular in the 1970s, it is not without its critics, who contend that it is too simplistic. Also, the growth rate criterion has been considered insufficient for the evaluation of an industry's attractiveness. Similarly, the market share as a yardstick for estimating the competitive position may be inadequate.

MAJOR KINDS OF STRATEGIES AND POLICIES

For a business enterprise (and, with some modification, for other kinds of organizations as well), the major strategies and policies that give an overall direction to operation are likely to be in the areas of growth, finance, organization, personnel, public relations, products or services, and marketing. We will elaborate on the last two areas.

Products or Services

A business exists to furnish products or services. In a very real sense, profits are merely a measure, although an important one, of how well a company serves its customers. New products or services, more than any other single factor, determine what an enterprise is or will be.

The key questions in this area can be summarized as:

- What is our business?
- Who are our customers?
- What do our customers want?
- How much will our customers buy and at what price?
- Do we wish to be a product leader?
- What is our competitive advantage?
- Do we wish to develop our own new products?
- What advantages do we have in serving customer needs?
- How should we respond to existing and potential competition?
- How far can we go in serving customer needs?
- What profits can we expect?

- What basic form should our strategy take?

Innovation Perspective

Corporate Strategy at the Tata Group[27]

The Tata Group is India's biggest conglomerate. The big three parts are Tata Steel, Tata Motors, and Tata Consulting Services. The group invested heavily in cars, steel, power, chemicals, and other products. To develop a more focused strategy, Tata sold the cosmetics, paint, and cement groups while entering new businesses in retail, biotech, telecom, and others.

Still, Tata faces several challenges. One is to build a coherent vision while being in different markets and industries. It is indeed a challenge to formulate strategies for almost 100 companies with some 300 subsidiaries in 40 different businesses. Another challenge is how to absorb the struggling Corus mills. With the high demand for energy, Tata focuses on the future by engaging in a low-cost solar project. Other challenges for the future are to decide which businesses to spin-off and which to pursue.

Marketing

Marketing strategies are designed to guide managers in getting products or services to customers and in encouraging customers to buy. Marketing strategies are closely related to product strategies; they must be interrelated and mutually supportive. As a matter of fact, Peter Drucker regards the two basic business functions as innovation (e.g., the creation of new goods or services) and marketing. A business can scarcely survive without at least one of these functions and preferably both.

The key questions that serve as guides for establishing a marketing strategy are:

- Where are our customers and why do they buy?

- How do our customers buy?
- How is it best for us to sell?
- Do we have something to offer that competitors do not?
- Do we wish to take legal steps to discourage competition?
- Do we need and can we supply supporting services?
- What are the best pricing strategy and policy for our operation?
- How can we best serve our customers?

HIERARCHY OF COMPANY STRATEGIES

In large, diversified companies, the overall strategy may take the form of a hierarchy. At the top of the pyramid is the *corporate-level strategy.* At this level, executives craft the overall strategy for a diversified company. Decisions are made as to the industries in which the company wants to compete. A portfolio of businesses is often selected to achieve synergies among the business units.

The second level in the hierarchy is *business strategies*, which are usually developed by the general manager of a business unit. These strategies are reviewed and approved or rejected by the chief executive. The aim of the business strategy is to gain a competitive advantage in a particular area of product line.

On the third hierarchical level, *functional strategies* (or policies) are developed. These strategies are devised for departments or other organizational units such as finance, production, marketing, service, and personnel. The aim is to support the business and corporate strategies.

PORTER'S INDUSTRY ANALYSIS AND GENERIC COMPETITIVE STRATEGIES[28]

Professor Michael Porter suggests that strategy formulation requires an analysis of the attractiveness of an industry and the company’s position within that industry. This analysis becomes the basis for formulating generic strategies.

Industry Analysis[29]

In the analysis of the industry, Porter identified five forces: (1) the competition among companies, (2) the threat of new companies entering the market, (3) the possibility of using substitute products or services, (4) the bargaining power of suppliers, and (5) the bargaining power of buyers or customers. On the basis of the industry analysis, a company may adopt generic strategies. These strategies are generic because they may be suitable on a broad level for different kinds of organizations. Any enterprise, however, may use more than one strategy.

Overall Cost Leadership Strategy

This strategic approach aims at reduction in costs, based to a great extent on experience. Thus, the emphasis may be on keeping a close watch on costs in areas such as research and development, operation, sales, and service. The objective is for a company to have a low-cost structure compared with its competitors. This strategy often requires a large relative market share and cost-efficient operation, as illustrated by the low-cost Ivory soap sold in a broad market.

Differentiation Strategy

A company following a differentiation strategy attempts to offer something unique in the industry in terms of products or services. Porsche sports cars are indeed special; so is the Caterpillar Company, which is known for its prompt service and availability of spare parts. In the broad consumer market, Dial soap is differentiated from other brands of soap by its use of deodorants.

Focused Strategy

A company adopting a focused strategy concentrates on special groups of customers, a particular product line, a specific geographic region, or other aspects that become the focal point of the firm's efforts. Rather than serving the entire market with its products or services, an enterprise may emphasize a specific segment of the market. A low-cost strategy, differentiation, or both may accomplish this. Porter illustrates the *focused low-cost strategy* with the example of La Quinta Inns, a motel chain that operates in a certain region of the United States and appeals to traveling business representatives, such as salespeople. The *focused differentiation strategy* may be exemplified by Cray Research Inc., which specializes in very powerful and sophisticated supercomputers. The differentiation allows the company to charge premium prices.

In general, a company needs to choose a generic strategy and should not "get stuck in the middle," according to Porter. A company that gets stuck in the middle needs to decide on a low-cost strategy or offer a differentiated (i.e., unique) product or service in a broad or narrow market.

PREMISING AND FORECASTING

One of the essential and often overlooked steps in effective and coordinated planning is premising, which is the establishment of and the agreement by managers and planners to utilize consistent assumptions critical to plans under consideration. **Planning premises** are defined as the anticipated environment in which plans are expected to operate. They include assumptions or forecasts of the future and known conditions that will affect the operation of plans.[30] Examples are prevailing policies and existing company plans that control the basic nature of supporting plans.

Planning premises The anticipated environment in which plans are expected to operate.

A distinction should be drawn between forecasts that are planning premises and forecasts that are translated into future expectancies, usually in financial terms, from actual plans developed. For example, a forecast to determine future business conditions, sales volume, or political environment furnishes premises on which to develop plans.

However, a forecast of the costs or revenues from a new capital investment translates a planning program into future expectations. In the first case, the forecast is a prerequisite of planning, and in the second, the forecast is a result of planning.

At the same time, plans and forecasts of their future effects often become premises for other plans. The decision by an electric company to construct a nuclear generating plant, for example, creates conditions that give rise to premises for transmission line plans and other plans necessarily dependent on the generating plant being built.

Innovation Perspective

Nissan's Leaf, the first mass-produced electric car[31]

When CEO Carlos Ghosn was asked to give a 30-second sales pitch for the all-electric car, he said:

“This is the only zero-emission car on the market. Other electric cars use gasoline; this one, there is not one drop. It’s fun to drive, but I can’t describe it. The only way you’ll discover it is by getting behind the wheel. There’s no vibration, no smell, no noise. This is the future—and everything else is going to look obsolete, like sending messages with pigeons.”[32]

The Brazilian-born CEO Ghosn predicted that within 10 years, electric cars will have 10 percent market share while several studies suggest a much lower market share percentage. The primary targets are young people and women. Since 2006, Nissan had already moved in the direction of the electric car based on the prediction of higher oil prices, the assumption of battery technology progress, and the exploding Asian market with the increased emission problem.

http://www.nissanusa.com/

But Ghosn has its skeptics. The change-oriented Carlos Ghosn even had to convince the 350,000 employees of the importance of preparing for the future. The Leaf is especially targeted for the emerging markets in India, China, Russia, and Brazil. The growth in these countries will also mean growth in pollution-emitting cars; thus, electric cars will help to cope with the emission problem. Clearly, the rise in the production of electric cars from many manufacturers since the introduction of the Nissan Leaf has shown that Ghosn's vision of the future was on target.

Environmental Forecasting

If the future could be forecast with accuracy, planning would be relatively simple. Managers would need only to take into account their human and material resources and their opportunities and threats, compute the optimum method of reaching their objective, and proceed with a relatively high degree of certainty toward it. In practice, forecasting is much more complicated.

Values and areas of forecasting

Forecasting has values aside from its use. First, the making of forecasts and their review by managers compel thinking ahead, looking to the future, and providing for it. Second, preparation of the forecast may disclose areas where necessary control is lacking. Third, forecasting, especially when there is participation throughout the organization, helps unify and coordinate plans. By focusing attention on the future, it assists in bringing a singleness of purpose to planning.

The environmental areas that are frequently chosen for making forecasts include the economic, social, political/legal, and technological environments.

Forecasting with the Delphi technique

One of the attempts to make technological forecasting more accurate and meaningful is the Delphi technique. This technique, developed by Olaf Helmer and his colleagues at the RAND Corporation, has a degree of scientific respectability and acceptance. A typical process of the Delphi technique is:

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1. A panel of experts on a particular problem area is selected, usually from both inside and outside the organization.
2. The experts are asked to make (anonymously, so that they will not be influenced by others) a forecast as to what they think will happen and when in various areas of new discoveries or developments.
3. The answers are compiled and the composite results are fed back to the panel members.
4. With this information at hand (but still with individual anonymity), further estimates of the future are made.
5. This process may be repeated several times.
6. When a convergence of opinion begins to evolve, the results are then used as an acceptable forecast.

Note that the purpose of the successive opinions and feedback is not to force the experts to compromise but rather, by bringing additional informational inputs to bear, to make opinions more informed. It is thus hoped (and experience has verified this hope) that an informed consensus among experts will be arrived at.

SUMMARY

There are different definitions of strategy. A comprehensive one refers to the determination of the firm's mission or purpose and its basic long-term objectives, followed by the adoption of courses of action and allocation of resources necessary to achieve these aims. Policies are general statements or understandings that guide managers’ thinking in decision-making. Both strategies and policies give direction to plans. They provide the framework for plans and serve as a basis for the development of tactics and other managerial activities.

The strategic planning model shows how the process works. It identifies the critical elements of this process and indicates how they relate to each other. The TOWS Matrix is a modern tool for analyzing the threats and opportunities in the external environment and their relationships to the organization’s internal weaknesses and strengths. Three TOWS Matrices have to be developed for mergers, acquisitions, joint ventures, and alliances. The portfolio matrix is a tool for allocating resources, linking the business growth rate with the relative competitive position (measured by market share) of the firm.

The blue ocean strategy focuses on the market space with no serious competition. In contrast, the red ocean strategy engages competitors in a bloody fight.

Major kinds of strategies and policies need to be developed in areas such as growth, finance, organization, personnel, public relations, products or services, and marketing. Strategies form a hierarchy from the corporate level to the business level and the functional level. Porter identified three generic competitive strategies related to overall cost leadership, differentiation, and focus.

Planning premises are the anticipated environment. They include assumptions or forecasts of the future and known conditions. More recently, environmental forecasting has become important. One approach to forecasting is the Delphi technique developed by the RAND Corporation.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Strategy
- Policy

- Tactics
- Key elements in the strategic planning process
- TOWS Matrix by Weihrich
- TOWS Merger Matrix
- Blue ocean strategy
- Portfolio matrix by the Boston Consulting Group
- Major kinds of strategies
- Hierarchy of strategies
- Porter's generic strategies
- Planning premises
- Environmental forecasting
- Delphi technique

FOR DISCUSSION

1. How can you distinguish between strategies and policies?
2. Are strategies and policies as important in a nonbusiness enterprise (such as a labor union, a government department, a hospital, or a city fire department) as they are in a business? Why and how?
3. Why are contingency plans important?
4. Choose an organization that you know and identify its strengths and weaknesses. What are its special opportunities and threats in the external environment?
5. How would you make an organizational appraisal of your college or university? What kind of "business" is the school in?
6. How can strategies be implemented effectively?
7. Identify major premises that, in your judgment, Honda Motor Company would need in order to forecast its sales of automobiles for the next two years.

EXERCISES/ACTION STEPS

1. Read two articles that deal with strategy in magazines such as *Fortune* or *Business Week.* List the strengths and weaknesses of a company reported as well as the opportunities and threats faced by the firm.
2. Take a major decision problem facing you and outline the more critical planning premises surrounding it. How many of these are matters of knowledge and how many matters of forecast? How many are qualitative and how many quantitative? How many are within your control?
3. Update your LinkedIn Profile and follow the companies that you find interesting.

ONLINE RESEARCH

1. The TOWS Matrix has been used for developing alternative strategies for organizations and for analyzing the competitive advantages of nations as well as for developing a career strategy. Search the Internet for the "TOWS Matrix" and identify the application of the matrix.
2. Search the Internet for the term "strategic intent" and compare the intents of four organizations.
3. Search the Internet for "competing for the future" and find reviews of the book by that name by Hamel and Prahalad.

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* Although the emphasis is on strategies in this discussion, similar analyses can be made for developing more detailed tactics or action plans.

CHAPTER

6

Decision-Making

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Analyze decision-making as a rational process
2. Develop alternative courses of action with consideration to the limiting factor
3. Evaluate alternatives and select a course of action from among them
4. Differentiate between programmed and non-programmed decisions
5. Understand the differences between decisions made under conditions of certainty, uncertainty and risk
6. Recognize the importance of creativity and innovation in managing

Decision-making is defined as the selection of a course of action from among alternatives; it is at the core of planning. A plan cannot be said to exist unless a decision—a commitment of resources, direction or reputation—has been made. Until that point, there are only planning studies and analyses. Managers sometimes see decision-making as their central job because they must constantly choose what is to be done, who is to do it and when, where and occasionally even how it will be done. Decision-making is, however, only a step in planning. Even when it is done quickly and with little thought or when it influences action for only a few minutes, it is part of planning. It is also part of everyone's daily life. A course of action can seldom be judged alone because virtually every decision must be geared to other plans.

Decision-making The selection of a course of action from among alternatives.

THE IMPORTANCE AND LIMITATIONS OF RATIONAL DECISION-MAKING

In the discussion of the steps in planning in Chapter 4, decision-making was considered a major part of planning. As a matter of fact, given the awareness of an opportunity and a goal, the decision-making process is really the core of planning. Thus, in this context, the process leading to making a decision might be thought of as (1) premising, (2) identifying alternatives, (3) evaluating alternatives in terms of the goal sought and (4) choosing an alternative, that is, making a decision.

Although this chapter emphasizes the logic and techniques of choosing a course of action, the discussion will show that decisionmaking is really one of the steps in planning.

Rationality in Decision-Making

It is frequently said that effective decision-making must be rational. But what is rationality? When is a person thinking or deciding rationally?

People acting or deciding rationally are attempting to reach some goal that cannot be attained without action. They must have a clear understanding of alternative courses by which a goal can be reached under existing circumstances and limitations. They also must have the information and the ability to analyze and evaluate alternatives in light of the goal sought. Finally, they must have a desire to come to the best solution by selecting the alternative that most effectively satisfies goal achievement.

People seldom achieve complete rationality, particularly in managing.[1] First, since no one can make decisions affecting the past, decisions must operate for the future, and the future almost invariably involves uncertainties. Second, it is difficult to recognize all the alternatives that might be followed to reach a goal; this is particularly true when decision-making involves doing something that has not been done before. Moreover, in most instances, not all alternatives can be analyzed, even with the newest analytical techniques and computers available.

Limited or "Bounded," Rationality

A manager must settle for limited or “bounded,” rationality. In other words, limitations of information, time and certainty limit rationality, even if a manager tries earnestly to be completely rational. Since managers cannot be completely rational in practice, they sometimes allow their dislike of risk—their desire to “play it safe”—to interfere with the desire to reach the best solution under the circumstances. Herbert Simon[2] called this **satisficing**, that is, picking a course of action that is satisfactory or good enough under the circumstances. Although many managerial decisions are made with a desire to “get by” as safely as possible, most managers do attempt to make the best decisions they can within the limits of rationality and in light of the degree and nature of the risks involved.

Satisficing Picking a course of action that is satisfactory or good enough under the circumstances.

DEVELOPMENT OF ALTERNATIVES AND THE LIMITING FACTOR

Assuming that we know what our goals are and agree on clear planning premises, the first step of decision-making is to develop alternatives. There are almost always alternatives to any course of action; indeed, if there seems to be only one way of doing a thing, it is probably wrong. If we can think of only one course of action, clearly we have not thought hard enough.

The ability to develop alternatives is often as important as being able to select correctly from among them. On the other hand, ingenuity, research6 !and common sense will often unearth so many choices that none of them can be adequately evaluated. The manager needs help in this situation, and this help as well as assistance in choosing the best alternative is found in the concept of the limiting or strategic factor.

A **limiting factor** is something that stands in the way of accomplishing a desired objective. Recognizing the limiting factors in a given situation makes it possible to narrow the search for alternatives to those that will overcome the limiting factors. The **principle of the limiting factor** states that by recognizing and overcoming those factors that stand critically in the way of a goal, the best alternative course of action can be selected.

Principle of the limiting factor By recognizing and overcoming factors that stand critically in the way of a goal, the best alternative course of action can be selected.

Innovation Perspective

Human versus Machine Decision-Making - The Winner is ...?[3]

The contest between IBM computer software Watson and the best quiz show champions on was the first person versus machine competition. Guess what? The computer won.

The successful quiz show Jeopardy began in 1964. Essentially, this answers and questions format presents the contestants with hints in the form of an answer. Then, the contestant must provide the response as a question. For example, in the Geography category, “It’s the only state lying south of the Tropic of Cancer,” has to be responded to with the question **What is Hawaii?**

Using the Jeopardy format, IBM Research developed the computer software called “Watson” with the objective not only to win the contest in the Jeopardy show, but more importantly, introduce a new technology generation. Watson does not actually think, but gives answers to tricky statements. The objective of the Watson computer project is to understand and interact with the natural language. It uses clusters of some 750 powerful computers containing information from sources such as the *World Book Encyclopaedia, Wikipedia*, books from *Project Gutenberg* and other sources. Search engines such as Google do not answer questions, but rather use keywords to search for results.

Watson's technology has been commercialized with many applications to be developed. Its success at the Jeopardy quiz show shows the application of technology to unstructured problems that may have a great impact on managerial and other decision-making.

HEURISTICS IN DECISION-MAKING

Sometimes, when there seem to be too many alternatives to choose from, managers rely on their own decision rules. These decision rules are called heuristics, and they allow complex judgments to be made more simply.[4] Because of these heuristics, decisions may vary with the characteristics or biases of the decision maker. Tversky and Kahneman (1974) wrote the seminal work on individual heuristics, defining them as simplifying mechanisms for complex decisions. And Daft and Weick (1984) noted that cognitive structures are necessary to prevent decision makers from becoming paralyzed by the need to analyze extensive data.[5]

Values and cognitive biases of the organization's top managers are seen in the organization's strategies and effectiveness. Shrivastava and Lim (1984) and Stubbart and Ramaprasad (1990) focus on identifying simplifications and biases in executives' maps of their industries.[6] Simplifying heuristics may be necessary in entrepreneurial situations where there are many unknown variables. For example, venture capitalists manage uncertainty in their decision-making at an unconscious level by assessing entrepreneurs through the prism of their own values. These 'values' underpin their heuristics and may be revealed by the predominant metaphors that VCs employ.[7] Managers should be aware of their own heuristics, how they may bias their decisions and attempt to compensate for them through a comprehensive decision process.

Adjusting the decision process may minimize the impact of individual heuristics and allow for more effective choices. For example, a firm's decision context is defined in terms of the comprehensiveness of its decision process and the heterogeneity of its decision team. Organizational decision models introduced by March6 !and Simon (1958) and Cyert and March (1963) made the rational decision process the mainstay in the management literature. Janis and Mann (1977) list the following steps in this rational decision process[8]:

1. Surveying a diversity of objectives based upon a multiplicity of values derived from the collectivity of stakeholders;
2. Generating a wide range of alternative courses of action;
3. Systematically acquiring relevant information to evaluate alternatives;
4. Objectively evaluating all relevant information;
5. Reevaluating the positive and negative consequences of alternatives initially considered as unacceptable;
6. Carefully evaluating the costs and risks of negative and positive consequences of the preferred alternative;
7. Developing detailed implementation plans and control systems for the chosen alternative, as well as contingency plans for identified risks.

The procedures delineated by Janis and Mann (1977) demonstrate the comprehensiveness of the decision-making process and may be applied to help facilitate better decision-making.

EVALUATION OF ALTERNATIVES

Once appropriate alternatives have been found, the next step in planning is to evaluate them and select the one that will best contribute to the goal. This is the point of ultimate decision-making, although decisions must also be made in the other steps of planning—in selecting goals, in choosing critical premises and even in selecting alternatives.

Quantitative and Qualitative Factors

In comparing alternative plans for achieving an objective, people are likely to think exclusively of **quantitative factors**. These are factors that can be measured in numerical terms such as time or various fixed and operating costs. No one would question the importance of this type of analysis, but the success of the venture would be endangered if **intangible or qualitative factors** were ignored. These factors are difficult to measure numerically such as the quality of labor relations, the risk of technological change or the international political climate. There are all too many instances in which an excellent quantitative plan was destroyed by an unforeseen war, a fine marketing plan made inoperable by a long transportation strike or a rational borrowing plan hampered by an economic recession. These illustrations point out the importance of giving attention to both quantitative and qualitative factors when comparing alternatives.

Quantitative factors Factors that can be measured in numerical terms.

Intangible or Qualitative factors Factors that are difficult to measure numerically.

To evaluate and compare the intangible factors in a planning problem and make decisions, managers must first recognize these factors and then determine whether a reasonable quantitative measurement can be given to them. If not, they should find out as much as possible about the factors, perhaps rate them in terms of their importance, compare their probable influence on the outcome with that of the quantitative factors and then come to a decision. This decision may give predominant weight to a single intangible.

Entrepreneurial Perspective

Interview with Jeb Miller, venture capitalist partner with JAFCO Ventures, on the Investment Decision Process[9]

JAFCO Ventures focuses on risk-adjusted early stage investments in the information technology and Internet sectors. Jeb Miller joined JAFCO in 2009 as a general partner, bringing 15 years of experience working with early stage technology companies as a venture capitalist, operating executive and investment banker. He has focused his investments in the software, Internet and IT infrastructure sectors and is passionate about teaming with entrepreneurs to help build successful companies. Before joining JAFCO, Jeb was a principal with the US Growth Fund at The Carlyle Group, one of the world's largest private equity firms.

We asked Mr. Miller to share his perspective on the investment decision process. Specifically, we wanted to know how JAFCO Ventures decided which new businesses to finance. He indicated "The three primary considerations JAFCO Ventures factors into an investment decision are the size of the market opportunity, the unique and disruptive nature of the technology and/or business model, and the quality of the team." Mr. Miller explained that a sufficient market is a prerequisite for a successful investment as it is very difficult to generate an outsized return within a limited market. He remarked further that JAFCO Ventures spends a significant amount of time conducting due diligence on the nature of the technology as that is where they strive to select the emerging winners. He justified this effort, noting: "History has proven that the leading company in an emerging market sector generally captures the lion's share of returns within that sector."

Mr. Miller emphasized that the third component (the quality of the team) is what they, as venture capitalists, can help shape the most following an investment by helping augment the founding technical team with business and functional experts out of the networks of talent that they have worked with over the years. Jeb concluded by sharing three other investment considerations that JAFCO Ventures values. They are "...the quality of the early-stage venture capital firms with whom they co-invest, the capital efficiency of the business plan, and the strategic value of an emerging technology to the industry incumbents." From our communication, it became clear that JAFCO Ventures employs a comprehensive and rational decision process to increase the odds of picking winners and developing these new ventures to their fullest potential.

JAFCO Ventures recently decided to rebrand as Icon Ventures and focuses on series B and C investments across five funds and about $760 million under management.

Marginal Analysis

Evaluating alternatives may involve utilizing the technique of **marginal analysis** to compare the additional revenue and the additional cost arising from increasing output. Where the objective is to maximize profit, this goal will be reached, as elementary economics teaches, when the additional revenue and additional cost are equal. In other words, if the additional revenue of a larger quantity is greater than its additional cost, more profit can be made by producing more. However, if the additional revenue of the larger quantity is less than its additional cost, a larger profit can be made by producing less.

Marginal analysis Comparing the additional revenue and the additional cost arising from increasing output.

Marginal analysis can be used in comparing factors other than cost and revenue. For example, to find the best output of a machine, input could be varied against output until the additional input equals the additional output. This would then be the point of maximum efficiency of the machine. Or the number of subordinates reporting to a manager might conceivably be increased to the point at which additional cost savings, better communication and morale and other factors equal additional losses in the effectiveness of control, leadership and similar factors.

Cost-Effectiveness Analysis

An improvement on or variation of traditional marginal analysis is cost-effectiveness or cost-benefit analysis. **Cost-effectiveness analysis** seeks the best ratio of benefit and cost; this means, for example, finding the least costly way of reaching an objective or getting the greatest value for a given expenditure.

Cost-effectiveness analysis seeks the best ratio of benefit and cost.

SELECTING AN ALTERNATIVE: THREE APPROACHES

When selecting from among alternatives, managers can use three basic approaches: (1) experience, (2) experimentation and (3) research6 !and analysis (Figure 6-1).

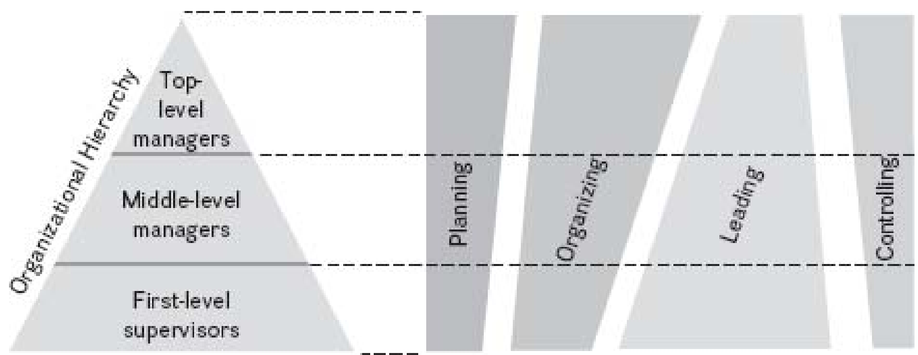

FIGURE 6-1 Bases for selecting from among alternative courses of action

Experience

Reliance on past experience probably plays a larger part than it deserves in decision-making. Often without realizing it, experienced managers usually believe that the things they have successfully accomplished and the mistakes they have made furnish almost infallible guides to the future. This attitude is likely to be more pronounced the more experience a manager has had and the higher he or she has risen in an organization.

To some extent, experience is the best teacher. The very fact that managers have reached their position appears to justify their past decisions. Moreover, the process of thinking problems through, making decisions and seeing programs succeed or fail does make for a degree of good judgment (at times bordering on intuition). Many people, however, do not learn from their errors, and there are managers who seem never to gain the seasoned judgment required by the modern enterprise.

Relying on past experience as a guide for future action can be dangerous. First, most people do not recognize the underlying reasons for their mistakes or failures. Second, the lessons of experience may be entirely inapplicable to new problems. Good decisions must be evaluated against future events, while experience belongs to the past.

On the other hand, if a person carefully analyzes experience rather than blindly following it and if he or she distills from experience the fundamental reasons for success or failure, then experience can be useful as a basis for decision analysis. A successful program, a well-managed company, a profitable product promotion or any other decision that turns out well may furnish useful data for such distillation. Just as scientists do not hesitate to build on the research of others and would be foolish indeed merely to duplicate it, managers can learn much from others.

Experimentation

An obvious way to decide among alternatives is to try one of them and see what happens. Experimentation is often used in scientific inquiry. People often argue that it should be employed more often in managing and that the only way a manager can make sure some plans are right—especially in view of the intangible factors—is to try the various alternatives and see which is best.

The experimental technique is likely to be the most expensive of all techniques, especially if a program requires heavy expenditures of capital and personnel and if the firm cannot afford to vigorously attempt several alternatives. Besides, after an experiment has been tried, there may still be doubt about what it proved, since the future may not duplicate the present. This technique, therefore, should be used only after considering other alternatives.

On the other hand, there are many decisions that cannot be made until the best course of action can be ascertained by experiment. Even reflections on experience or the most careful research may not assure managers of correct decisions. This is nowhere better illustrated than in the planning of a new airplane.

An airplane manufacturer may draw from personal experience and that of other plane manufacturers and new plane users. Engineers and economists may make extensive studies of stress, vibration, fuel consumption, speed, space allocation and other factors. But all these studies do not answer every question about the flight characteristics and economics of a successful plane; therefore, some experimentation is almost always involved in the process of selecting the right course to follow. Ordinarily, a first production or prototype airplane is constructed and tested, and on the basis of these tests, production airplanes are made according to a somewhat revised design.

Experimentation is used in other ways. A firm may test a new product in a certain market before expanding its sale nationwide. Organizational techniques are often tried in a branch office or plant before being applied over an entire company. A candidate for a management job may be tested in the job during the incumbent’s vacation.

Research and Analysis

One of the most effective techniques for selecting from alternatives when major decisions are involved is research and analysis. This approach means solving a problem by first comprehending it. It thus involves a search for relationships among the more critical of the variables, constraints and premises that bear on the goal sought. It is the pencil and paper (or better, the computer and printout) approach to decision-making.

Solving a planning problem requires breaking it into its component parts and studying the various quantitative and qualitative factors. Study and analysis is likely to be far cheaper than experimentation. The hours of time and reams of paper used for analyses usually cost much less than trying the various alternatives. In manufacturing airplanes, for example, if careful research did not precede the building and testing of the prototype airplane and its parts, the resulting costs would be enormous.

A major step in the research and analysis approach is to develop a model simulating the problem. Thus, architects often make models of buildings in the form of extensive blueprints or three-dimensional renditions. Engineers test models of airplane wings and missiles in a wind tunnel. But the most useful simulation is likely to be a representation of the variables in a problem situation by mathematical terms and relationships. Conceptualizing a problem is a major step toward its solution. The physical sciences have long relied on mathematical models to do this, and it is encouraging to see this method being applied to managerial decision-making.

PROGRAMMED AND NON-PROGRAMMED DECISIONS

A distinction can be made between programmed and non-programmed decisions. A **programmed decision** (Figure 6-2) is applied to structured or routine problems. Lathe operators, for instance, have specifications and rules that tell them whether the part they made is acceptable, has to be discarded or should be reworked. Another example of a programmed decision is the reordering of standard inventory items. This kind of decision is used for routine and repetitive work; it relies primarily on previously established criteria. It is, in effect, decision-making by precedent.

Programmed decisions are used for structured or routine work.

Non-programmed decisions are used for unstructured, novel and ill-defined situations of a nonrecurring nature. Examples are the introduction of the Macintosh Computer by Apple Computer or the development of the four-wheel drive passenger car by Audi. In fact, strategic decisions, in general, are non-programmed decisions, since they require subjective judgments.

Non-programmed decisions are used for unstructured, novel and ill-defined situations of a nonrecurring nature

Most decisions are neither completely programmed nor completely non-programmed; they are a combination of both. As Figure 6-2 indicates, most non-programmed decisions are made by upper-level managers; this is because they have to deal with unstructured problems. Problems at lower levels of the organization are often routine and well structured, requiring less decision discretion by managers and non-managers.

DECISION-MAKING UNDER CERTAINTY, UNCERTAINTY AND RISK

Virtually all decisions are made in an environment of at least some uncertainty. However, the degree will vary from relative certainty to great uncertainty. There are certain risks involved in making decisions. In a situation involving certainty, people are reasonably sure about what will happen when they make a decision. The information is available and is considered to be reliable and the cause and effect relationships are known.

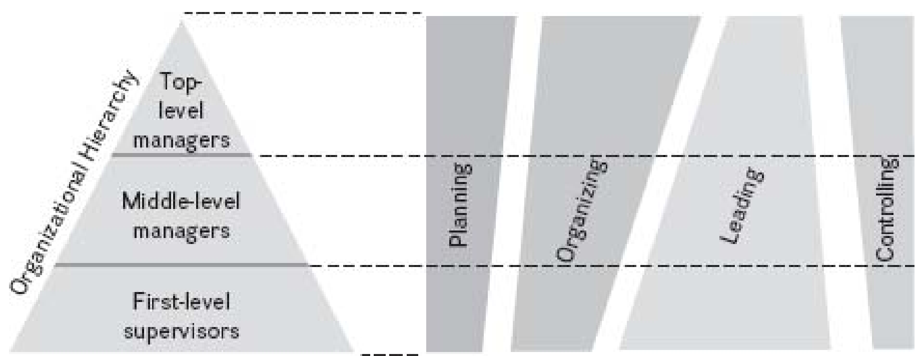

FIGURE 6-2 The nature of problems and decision-making in the organization

In a situation of uncertainty, on the other hand, people have only a meager database, they do not know whether or not the data are reliable and they are very unsure about whether or not the situation may change. Moreover, they cannot evaluate the interactions of the different variables. For example, a corporation that decides to expand its operation to an unfamiliar country may know little about the country's culture, laws, economic environment and politics. The political situation may be so volatile that even experts cannot predict a possible change in government.

In a situation with risks, factual information may exist, but it may be incomplete. To improve decision-making, one may estimate the objective probability of an outcome by using, for example, mathematical models. On the other hand, subjective probability, based on judgment and experience, may be used.

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All intelligent decision makers dealing with uncertainty like to know the degree and nature of the risk they are taking in choosing a course of action. One of the deficiencies in using the traditional approaches of operations research6 !for problem-solving is that many of the data used in a model are merely estimates and others are based on probabilities. The ordinary practice is to have staff specialists come up with "best estimates."

Virtually every decision is based on the interaction of a number of important variables, many of which have an element of uncertainty but, perhaps a fairly high degree of probability. Thus, the wisdom of launching a new product might depend on a number of critical variables: the cost of introducing the product, the cost of producing it, the capital investment that will be required, the price that can be set for the product, the size of the potential market, and the share of the total market that it will represent.

Innovative Perspective

Interview with Girish Acharya, engineering director in SRI's Artificial Intelligence Center, on Managing for Innovation[10]

Girish Acharya is an engineering director in SRI International's Artificial Intelligence Center in Palo Alto, California. SRI International, founded in 1946 as Stanford Research Institute, is a leading independent non-profit research organization that conducts client-sponsored research and development for government agencies, businesses and foundations. With more than 2,000 employees, SRI has been in the forefront of innovation for the past 60 years. SRI's many innovations, such as the computer mouse, the personal computer interface, Internet domain names, mobile communication and high definition television, have become part of our daily life.

Mr. Acharya manages a number of innovative projects at SRI. For example, he recently worked on the integration of CALO/ PAL, an ambitious effort to create a next generation of personal cognitive assistants that learn and adapt. This effort involved 22 leading research institutions, universities and commercial enterprises. We asked Girish what he believed the secret was behind SRI's success in innovation. He cited a passage from the book, *Innovation. The Five Disciplines for Creating What Customers Want*, written by Curt Carlson, the CEO of SRI, and William W. Wilmot. In the book, Carlson and Wilmot assert that success in innovation comes from working on problems that are important, not just interesting. They also outline five critical aspects of successful innovation, namely: important needs, value creation, innovation champions, innovation teams and organizational alignment.[11] Girish elaborated, "Innovation starts from the base and closer to the problem. Every department has an internal R&D budget to promote new ideas and get required mentoring. As ideas gain momentum, higher management provides a nurturing environment to take it to the next level and keeps the innovation engine chugging along."

We asked Girish to tell us what he believed keeps people creative and innovative at SRI. He shared, "There are many factors, but the three most important are passion, discipline and the multidisciplinary team. People are passionate about making an impact and a difference. Passion keeps people looking for the next big thing in a roller coaster world of innovation. SRI International follows a disciplined approach towards innovation using Need, Approach, Benefits and Competition (NABC) analysis. SRI regularly uses NABC to stimulate ideas and strive for a better product. Finally, SRI International has made major breakthroughs through its ability to bring together employees with diverse backgrounds to solve important problems." We noted that Mr. Acharya has a master's degree in engineering from IIT, Kanpur, India, and the University of Toronto and a master's degree in business administration from the Haas School of Business. Prior to SRI, Mr. Acharya was a senior consultant at HP where he helped to design and implement the HP content management bridge between hundreds of authoring and publishing communities. We expect that Mr. Girish' own diverse background brings great value to the innovative process. What diverse skills and experiences can you develop in the coming years?

CREATIVITY AND INNOVATION[12]

A distinction can be made between creativity and innovation. The term **creativity** usually refers to the ability and power to develop new ideas. **Innovation**, on the other hand, usually means the use of these ideas. In an organization, this can mean a new product, a new service or a new way of doing things. Although this discussion centers on the creative process, it is implied that organizations not only generate new ideas, but also translate them into practical applications.

Creativity The ability to generate novel ideas that is relevant to the issue.

Innovation The use or commercialization of creative ideas or inventions.

The Creative Process

The creative process is seldom simple and linear. Instead, it consists of four overlapping and interacting phases: (1) unconscious scanning, (2) intuition, (3) insight and (4) logical formulation.

The first phase, *unconscious scanning*, is difficult to explain because it is beyond consciousness. This scanning usually requires an absorption in the problem, which may be vague in the mind. Yet, managers working under time constraints often make decisions prematurely rather than dealing thoroughly with ambiguous, ill-defined problems.

Four phases of the **creative process**: unconscious scanning, intuition, insight and logical formulation or verification.

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The second phase, *intuition*, connects the unconscious with the conscious. This stage may involve a combination of factors that may seem contradictory at first. For example, Donaldson Brown and Alfred Sloan of General Motors (GM) conceived the idea of a decentralized division structure with centralized control, concepts that seem to contradict each other. Yet, the idea makes sense when one recognizes the underlying principles of (1) giving responsibility for the operations to the general manager of each division and (2) maintaining centralized control in the headquarters over certain functions. It took the intuition of two great corporate leaders to see that these two principles could interact in the managerial process.

Intuition needs time to work. It requires that people find new combinations and integrate diverse concepts and ideas. Thus, one must think through the problem. Intuitive thinking is promoted by several techniques, such as brainstorming.

Insight, the third phase of the creative process, is mostly the result of hard work. For example, many ideas are needed in the development of a usable product, a new service or a new process. What is interesting is that insight may come at times when the thoughts are not directly focused on the problem at hand. Moreover, new insights may last for only a few minutes, and effective managers may benefit from having paper and pencil ready to make notes of their creative ideas.

The last phase in the creative process is *logical formulation* or *verification*. Insight needs to be tested through logic or experiment. This may be accomplished by continuing to work on an idea or by inviting critiques from others. Brown and Sloan's idea of decentralization, for example, needed to be tested against organizational reality.

Innovation Perspective

Innovation in India: Micro Financing[13]

Innovation is not restricted to large companies with big research6 !and development budgets. In India, the self-help groups (SHGs) consisting of some 12-15 women organize to get bank loans from large banks. While individuals would not obtain loans, the groups did. Group members discuss which project should be financed and how priorities should be set. These groups know the local environment well and can identify the needs and opportunities in the community. They also oversee how the money is used. Indeed, the loan repayment rates are as high at 99.5 per cent. This innovative micro financing arrangement illustrates the decision and innovation at the lowest income level.

Brainstorming[14]

Creativity can be taught. Creative thoughts are often the fruits of extensive efforts. Some techniques focus on group interactions, others on individual actions.

One of the best-known techniques for facilitating creativity was developed by Alex F. Osborn, who has been called the father of brainstorming.[15] The purpose of this approach is to improve problemsolving by finding new and unusual solutions. In the brainstorming session, a multiplication of ideas is sought. The rules are:

- No ideas are ever criticized.
- The more radical the ideas are, the better.
- The quantity of idea production is stressed.
- The improvement of ideas by others is encouraged.

Brainstorming, which emphasizes group thinking, was widely accepted after its introduction. However, the enthusiasm was dampened by research which showed that individuals could develop better ideas working by themselves than they could be working in groups. Additional research, however, showed that in some situations the group approach may work well. This may be the case when the information is distributed among various people or when a poorer group decision is more acceptable than a better individual decision that, for example, may be opposed by those who have to implement it. Also, the acceptance of new ideas is usually greater when the decision is made by the group charged with its implementation.

International Perspective

Learning Innovation from Emerging Countries[16]

Companies learned that they could profit from selling low-priced products in other countries. General Electric's Healthcare Unit developed an electrocardiograph machine for doctors in China and India. Traditionally, innovations were first developed in the United States, Europe and Japan. Now, some of the innovations come from poor countries. Indeed, some US companies send their innovation managers to less developed countries. Research is now conducted abroad. For example, Hewlett-Packard has a research laboratory in India. Innovation can originate in developed, developing and even underdeveloped countries.

Limitations of Traditional Group Discussion

Although the technique of brainstorming may result in creative ideas, it would be incorrect to assume that creativity flourishes only in groups. Indeed, the usual group discussion can inhibit creativity. For example, group members may pursue an idea to the exclusion of other alternatives. Experts on a topic may not be willing to express their ideas in a group for fear of being ridiculed. Also, lower-level managers may be inhibited in expressing their views in a group with higher-level managers. Pressures to conform can discourage the expression of deviant opinions. The need for getting along with others can be stronger than the need for exploring creative but unpopular alternatives to the solution of a problem. Finally, because they need to arrive at a decision, groups may not make the effort of searching for data relevant to a decision.

Innovation Perspective

How 3M Fosters Innovation[17]

Companies have different strategies for fostering innovation. At Johnson & Johnson, autonomous operating units are encouraged to innovate. The organization culture allows failure. At Rubbermaid, 30 per cent of its sales are derived from products that are less than five years old. Hewlett-Packard encourages researchers to spend 10 per cent of their time on their pet projects, and Merck allocates time and resources to its researchers for working on high-risk products with a potential for high payouts. Dow Corning and General Electric engage in joint projects with customers to develop new products. One of the masters in innovation is Minnesota Mining & Manufacturing (3M).

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www.rubbermaid.com
www.hp.com
www.dowcorning.com
www.ge.com
www.3m.com

When one hears of 3M, one thinks of innovation. The organizational environment of 3M fosters creative thinking and a tolerance for new ideas. Although the financial performance in 1995 was not as good as before, the company met its goal of obtaining at least 30 per cent of its sales from products that were less than four years old. Continual innovation is fostered by the 15 per cent rule, which suggests that researchers spend 15 per cent of their time on things that are not related to their main project.

The company is very decentralized. Its 8,300 researchers work in many different laboratories. This results in redundancy. In theory, the main labs and development centers should do research, while the others do the development. Often, however, it does not work this way. The company operates with few rules and does not have a strategy in the traditional sense. Instead, it is guided by two things: (1) to be very innovative and (2) to satisfy the customer in every respect. Anything that hampers innovation, such as excessive planning or intolerance for mistakes, is eliminated. On the other hand, information sharing is required. Although financial measures act as a control, the real control comes from peers, who review each other's work.

The typical innovative process at 3M works as follows: When a person in the organization has an idea for a new product, he or she forms a team consisting of individuals from the functional areas, such as the technical department, manufacturing, marketing, sales and, at times, finance. The company also encourages customers to contribute their ideas. The team works on product design, production and marketing. Moreover, various uses of the product are explored. Team members are rewarded for the success of the product.

Rules or guidelines are rather simple: develop a tolerance for failure; reward those who have a good product idea and who can form an effective action team to promote the product; establish close relationships with customers; share technology with others in the company; keep the project alive by allocating time or financial grants; and keep the divisions small.

The future will tell whether innovation will continue to be a key success factor for 3M.

The Creative Manager[18]

All too often, it is assumed that most people are non-creative and have little ability to develop new ideas. This assumption, unfortunately, can be detrimental to the organization, for in the appropriate environment virtually all people are capable of being creative, although the degree of creativity varies considerably between individuals.

Generally speaking, creative people are inquisitive and come up with many new and unusual ideas; they are seldom satisfied with the status quo. Although intelligent, they not only rely on the rational process, but also involve the emotional aspects of their personality in problemsolving. They appear to be excited about solving a problem, even to the point of tenacity. Creative individuals are aware of themselves and capable of independent judgment. They object to conformity and see themselves as being different.

It is beyond question that creative people can make great contributions to an enterprise. At the same time, however, they may also cause difficulties in organizations. Change—as any manager knows— is not always popular. Moreover, change frequently has undesirable and unexpected side effects. Similarly, unusual ideas, pursued stubbornly, may frustrate others and inhibit the smooth functioning of an organization. Finally, creative individuals may be disruptive by ignoring established policies, rules and regulations. John

Kao, who teaches at Harvard Business School, suggests that creative people should have enough freedom to pursue their ideas, but not too much that they waste their time or do not find enough time to collaborate with others in working toward common goals. He suggests that managers should view themselves as jazz musicians who follow a set of scores but have enough freedom for variations.[19]

As a result, the creativity of most individuals is probably underutilized in many cases, despite the fact that unusual innovations can be of great benefit to the firm. However, individual and group techniques can be effectively used to nurture creativity, especially in the area of planning. Nonetheless, creativity is not a substitute for managerial judgment. It is the manager who must determine and weigh the risks involved in pursuing unusual ideas and translating them into innovative practices.

Invention and Innovation[20]

Invention alone is not sufficient for business success—it has to be followed by innovation. **Invention** pertains to new ideas and process and **innovation** is the application of the ideas to products or services. Invention is discovery, finding something new.[21] Innovation, on the other hand, is using the idea and putting it into practice. Innovation is the realization of the idea. The IBM team was instructed not to invent the computer, but bring the off-the-shelf components together resulting in the IBM PC. Thus, it was innovation that resulted in the PC.[22]

Invention pertains to new ideas and process.

Innovation is the application of the ideas to products or services.

SUMMARY

Decision-making is the selection of a course of action from among alternatives; it is the core of planning. Managers must make choices on the basis of limited or bounded rationality, that is, in light of everything they can learn about a situation, which may not be everything they should know. *Satisficing* is a term sometimes used to describe picking a course of action that is satisfactory under the circumstances.

Because there are almost always alternatives—usually many—to a course of action, managers need to narrow them down to those few that deal with the limiting factors. These are the factors that stand in the way of achieving a desired objective. Alternatives are then evaluated in terms of quantitative and qualitative factors. Other techniques for evaluating alternatives include marginal analysis and cost-effectiveness analysis. Experience, experimentation and research6 !and analysis come into play in selecting an alternative.

Programmed and non-programmed decisions are different. The former are suited for structured or routine problems. These kinds of decisions are made especially by lower- level managers and non-managers. Non-programmed decisions, on the other hand, are used for unstructured and non-routine problems and are made especially by upper- level managers.

Virtually all decisions are made in an environment of at least some uncertainty involving the interaction of a number of important variables, and there are certain risks involved in making decisions. Managers dealing with uncertainty should know the degree and nature of the risk they are taking in choosing a course of action.

Creativity, the ability and power to develop new ideas, is important for effective managing. Innovation is the use of these ideas. The creative process consists of four overlapping phases: unconscious scanning, intuition, insight and logical formulation. A popular technique for enhancing creativity is brainstorming. Creative individuals can make a great contribution to the enterprise. At the same time, they can be disruptive by not following commonly accepted rules of behavior.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Decision-making

- Limited or bounded rationality
- Satisficing
- Principle of the limiting factor
- Quantitative factors
- Qualitative factors
- Marginal analysis
- Cost-effectiveness analysis
- Three approaches to selecting an alternative:
- Programmed decisions
- Non-programmed decisions
- Decision-making under certainty, uncertainty and risk
- Creativity
- Innovation
- Creative process
- Brainstorming
- Creative manager
- Invention and innovation

FOR DISCUSSION

1. Why is experience often referred to not only as an expensive basis for decisionmaking, but also as a dangerous one? How can a manager make the best use of experience?
2. In a decision problem you now know of, how and where would you apply the principle of the limiting factor? Did you apply this principle in selecting the class or section of the class you are attending? In what ways?
3. Identify five decision problems and recommend programmed or non-programmed decisions. If the examples are from an organizational setting, did they occur at upper or lower levels?
4. "Decision-making is the primary task of the manager." Comment.
5. Think of a problem that was creatively solved. Did the solution come from group discussion or was it the result of an

individual effort? Reconstruct the phases of the creative process.
6. What is the difference between invention and innovation?

EXERCISE/ACTION STEPS

1. Your boss offers you a promotion to a position in a location that your family does not like. Make the necessary assumptions, and then state how and what you would decide.
2. Ask for one recommendation from a current or former colleague for your LinkedIn profile.

INTERNET RESEARCH6

1. Search the Internet for “creativity” and illustrate how creativity can be applied to decision-making.
2. Find three applications of brainstorming on the Internet.

Innovation Case

Future of the Automobile[23]

Today, most cars depend on gasoline power for propulsion. The future, however, provides opportunities for many alternative power sources ranging from electricity to hydrogen. Diesel and natural gas engines are still based on old technologies. The developing technologies may be utilized not only for cars, but also for buses, trucks, trains, ships, boats and other vehicles. The focus, however, is on the application of power sources for cars.

New Technologies

At the moment, hybrid cars are very popular and electric cars gaining on importance. Hydrogen-driven cars are still futuristic and the infrastructure is critical for the success of cars using electricity for power

Electric Cars

Companies have been working on electric cars for a long time. But only more recently do we see some viable electric cars on the market. **Tesla** Motors, a Silicon Valley-based company near San Francisco, began producing and selling the high-priced Tesla Roadster. More recently, the company introduced the Model S, an electric luxury sedan (with a base price of more than $55,000). It is still expensive, but much less than the Roadster. Tesla cars use lithium-ion batteries with a driving range of more than 200 miles. The Roadster accelerates very quickly and is even more efficient than Toyota's popular Prius. The Tesla car may have inspired (GM) to develop the Chevrolet Volt electric car.

GM introduced the plug-in Chevrolet Volt with much fanfare. But shortly after its introduction, the company planned a five-week production stop, temporary laying off 1,300 employees.[24] The reason was a shortfall of its sales expectation. The Volt experienced battery problems that may have contributed to the low-volume sales in the United States and may have affected the sales of Opel's Ampera, a newer "twin" in Europe. Still, GM is hopeful for the future of electric cars.

Carlos Ghosn, **Nissan's** CEO, is a strong advocate for electric cars with significant R&D investments. The electric Leaf vehicle was introduced in 2010 in Europe, Japan and North America. The company arranged agreements with the US State of Oregon with the objective of encouraging clean energy. Alliances are also formed in Denmark, France, Spain, Portugal and other countries. Nissan attempts to profit from the new developments in battery technology and formed an alliance with the German Bosch company. Nissan is best known for the Leaf model, which has a driving range of some 100 miles or 160 km. Other models such as the Esflow, Townpod, Nuvu and Land Glider have been introduced in various motor shows. It is clear that Nissan's strategy is betting on the electric car future.

Hybrid Cars

Besides electric cars from Tesla, GM and Nissan, hybrid cars have become very popular, especially during the time of high gasoline prices. The hybrid vehicle uses a small combustion engine and an electric motor or even two motors. The combustion engines use mostly gasoline or diesel fuels. The electric motors are powered by batteries. The combustion engine not only charges the battery, but it is also used for propulsion. The result is improved fuel consumption and reduced emission. Toyota Motors is at the forefront on the hybrid technology, as illustrated by its popular Prius models. The basic Prius model (now in its third generation) has been followed by Prius V, which is larger, the smaller Prius C and the Prius Plug-In Hybrid which also allows stationary battery charging. Other Toyota models are the Camry Hybrid and the Highlander Hybrid. Clearly, Toyota is betting on the future of hybrid vehicles.

Hydrogen Cars

Another approach to prepare for the future is the development of hydrogen vehicles that carry hydrogen fuel in the tank. Many car companies have hydrogen vehicles in the developmental stage, but the vehicles are mostly used for demonstration rather than mass production. The American Ford Motor Company dropped the hydrogen development and so did Renault-Nissan. GM reduced its efforts and focused on the electric Volt vehicle. Other companies still make some efforts in the hydrogen vehicle development, but the hydrogen fuel cell car got a setback when the US Energy Secretary Steven Chu announced cutting its research funding. In the short term, there are other more promising alternatives such as the plug-in electric cars.

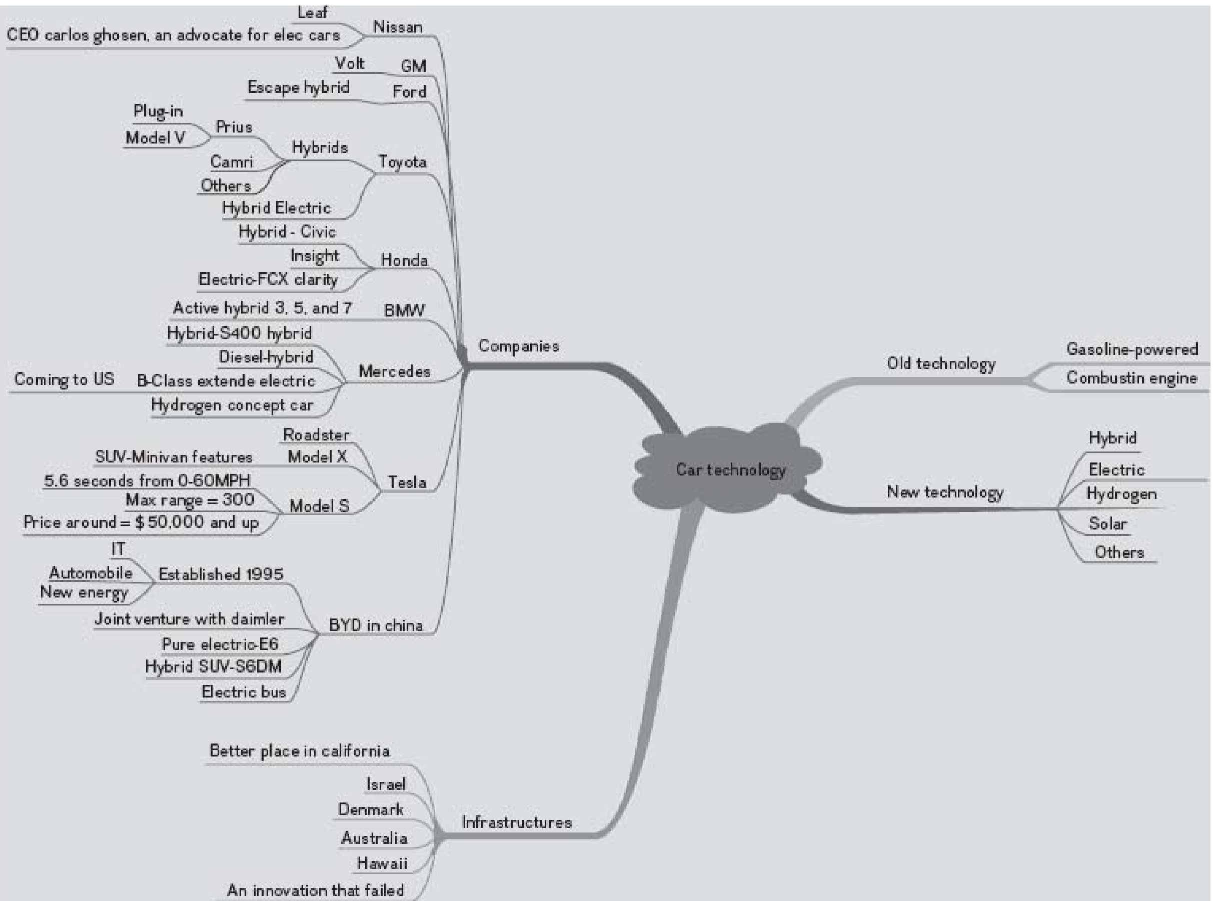
Infrastructure and an Innovation Failure

With the increased interest in electric plug-in cars, the need for providing opportunities for charging the batteries is evident. Various approaches have been used such as Park & Charge in Europe and the standardized PARVE design in Spain. Charging stations can be found at taxi stands, parking lots, shopping centers, garages, on-street parking and many other places. An easy way to charge the battery is at home. Another, innovative approach is to swap the batteries on designated battery switching stations.

Better Place is an American-Israeli venture company located in California, near San Francisco. The idea originated at the World Economic Forum in Davos, Switzerland, in 2005. The battery-swapping network was introduced in Israel, Denmark and Hawaii. Other countries and regions are also interested in the idea. The project is supported by Renault-Nissan which will built vehicles suitable for battery swapping. In such an arrangement, the vehicle would be sold by the car manufacturer and the batteries would be supplied separately. Customers would pay for the battery and the use of the electric power. Batteries could be swapped in three minutes or even in same cases in one minute. The customer would not even have to get out of the car while the battery is replaced.

Better Place was a promising innovation idea. However, it failed resulting in bankruptcy. Some say that one of the reasons is poor management.[1]

Following is a diagram that highlights some of the issues in the future development of car propulsion.



Questions

1. Which new technology (electric plug-ins, hybrid, hybrid electric, hydrogen) is probably succeeding in the near future, let us say in 5 or 10 years? Why or why not?
2. Would you buy an electric plug-in car with a range of about 100 or 200 miles? Why or why not?
3. Will your next car have a traditional gasoline or diesel combustion engine? If your answer is "Yes," are you concerned about the environmental impact of such a car? Why or why not?
4. Read about the Better Place failure at http://www.fastcompany.com/3028159/ a-broken-place-better-place and identify the underlying causes for the failure. Accessed April 23, 2014.

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1 For a detailed discussion of the Better Place failure, see Max Chafkin, "Better Place - A Broken Place," in Fast Company, May 2014, pp. 86–101. See also http://www.fastcompany.com/3028159/a-broken-place-better-place

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Part 2 Closing

Major Principles or Guides for the Managerial Function of Planning

Although a complete set of empirically proven, interrelated principles has not been discovered and codified, experience and observation of managing indicate certain fundamental managerial principles or guides. They not only provide managers with a conceptual scheme but also indicate to scholars areas for research. To be sure, the key abstractions need to be applied with due consideration for the situation - and this is an art. In this closing section, the principles, which perhaps would be more appropriately called guides to management, are organized according to the managerial functions of planning, organizing, staffing, leading, and controlling. In this part closing, the focus is on planning.

Each principle is given a number with a letter that represents the type of managerial function. The letter “P” below indicates that the principle pertains to an aspect of planning.

MAJOR PRINCIPLES OR GUIDES FOR PLANNING

The most essential guiding principles for planning are the following:

The Purpose and Nature of Planning

The purpose and nature of planning may be summarized by reference to the following principles.

P1. *Principle of contribution to objective.* The purpose of every plan and all supporting plans is to promote the accomplishment of enterprise objectives.

P2. *Principle of objectives.* If objectives are to be meaningful to people, they must be clear, attainable, and verifiable.

P3. *Principle of primacy of planning.* Planning logically precedes all other managerial functions.

P4. *Principle of efficiency of plans.* The efficiency of a plan is measured by the amount it contributes to purpose and objectives offset by the costs required to formulate and operate it and by unsought consequences.

The Structure of Plans

Two major principles dealing with the structure of plans can go far in tying plans together, making supporting plans contribute to major plans and ensuring that plans in one department harmonize with those in another.

P5. *Principle of planning premises.* The more thoroughly individuals charged with planning understand and agree to utilize consistent planning premises, the more coordinated enterprise planning will be.

P6. *Principle of the strategy and policy framework*. The more strategies and policies are clearly understood and implemented in practice, the more consistent and effective will be the framework of enterprise plans.

The Process of Planning

Within the process of planning, there are four principles that help in the development of a practical science of planning.

P7. *Principle of the limiting factor.* In choosing among alternatives, the more accurately individuals recognize and allow for factors that are limiting or critical to the attainment of the desired goal, the more easily and accurately can they select the most favorable alternative.

P8. *The commitment principle.* Logical planning should cover a period of time in the future necessary to foresee as well as possible, through a series of actions, the fulfillment of commitments involved in a decision made today.

P9. *Principle of flexibility.* Building flexibility into plans will lessen the danger of losses incurred through unexpected events, but the cost of flexibility should be weighed against its advantages.

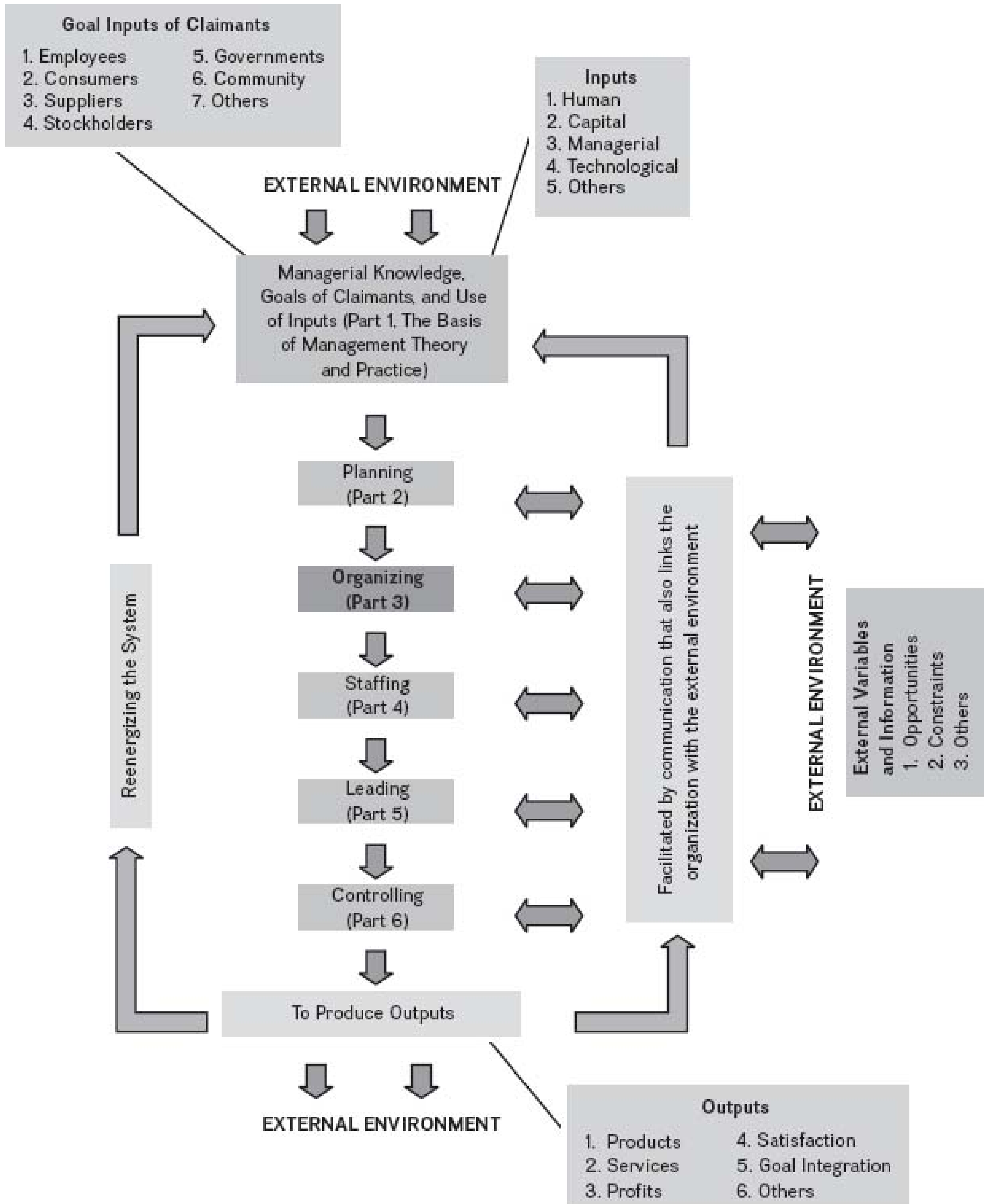
P10. *Principle of navigational change.* The more that planning decisions commit individuals to a future path, the more important it is to check on events and expectations periodically and redraw plans as necessary to maintain a course toward a desired goal.

The commitment principle and the principles of flexibility and navigational change are aimed at a contingency approach to planning. Although it makes sense to forecast and draw plans far enough into the future to be reasonably sure of meeting commitments, often it is impossible to do so or the future is so uncertain that it is too risky to fulfill those commitments.

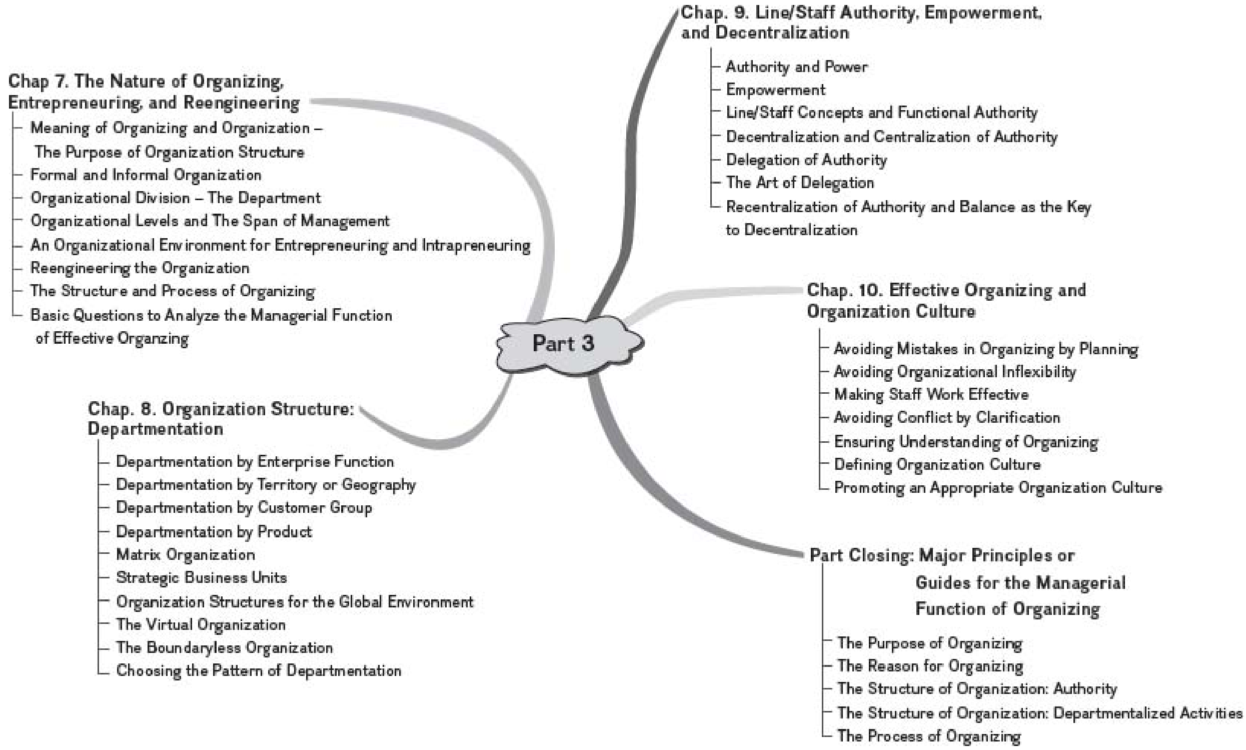
The principle of flexibility deals with the ability to change plans necessitated by unexpected events. The principle of navigational change, on the other hand, implies reviewing plans from time to time and redrawing them if this is required by changed events and expectations. Unless plans have built-in flexibility, navigational change may be difficult or costly.

PART 3

Organizing



SYSTEMS APPROACH TO MANAGEMENT: Organizing


Part 3
Chap 7. The Nature of Organizing, Entrepreneuring, and Reengineering
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Organizational Division – The Department
Organizational Levels and The Span of Management
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The Purpose of Organizing
The Reason for Organizing
The Structure of Organization: Authority
The Structure of Organization: Departmentalized Activities
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CHAPTER 7

The Nature of Organizing, Entrepreneuring, and Reengineering

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Realize that the purpose of an organization structure is to establish a formal system of roles
2. Understand the meaning of *organizing* and *organization*
3. Draw a distinction between formal and informal organization
4. Show how organization structures and their levels are due to the limitation of the span of management
5. Recognize that the exact number of people a manager can effectively supervise depends on a number of underlying variables and situations
6. Describe the nature of entrepreneuring and intrapreneuring
7. Understand the key aspects and limitations of reengineering
8. Demonstrate the logic of organizing and its relationship to other managerial functions
9. Appreciate that organizing requires taking situations into account

It is often said that good people can make any organizational structure work. Some people even assert that vagueness in organization is a good thing, in that it forces teamwork since people know that they must cooperate to get anything done. However, there can be no doubt that good people and those who want to cooperate will work together most effectively if they know the parts they are to play in any team operation and the way their roles relate to one another. This is as true in business or government as it is in football or in a symphony orchestra. Designing and maintaining these systems of roles are basically the managerial function of organizing.

For an **organizational role** to exist and be meaningful to people, it must incorporate (1) verifiable objectives, which (as indicated in Part 2) are a major part of planning; (2) a clear idea of the major duties or activities involved; and (3) an understood area of discretion or authority so that the person filling the role knows what he or she can do to accomplish goals. In addition, to make a role work effectively, provision should be made for supplying needed information and other tools necessary for performance in that role.

It is in this sense that we think of organizing as:

- The identification and classification of required activities
- The grouping of activities necessary for attaining objectives
- The assignment of each group to a manager with the authority (delegation) necessary to supervise
- The provision for coordination horizontally (on the same or a similar organizational level) and vertically (e.g., between corporate headquarters, division, and department) in the organization structure

An organization structure should be designed to clarify who is to do what tasks and who is responsible for what results in order to remove obstacles to performance caused by confusion and uncertainty of assignment and to furnish decision-making and communication networks reflecting and supporting enterprise objectives.

Organization is a word many people use loosely. Some would say it includes all the behaviors of all participants; others would equate it with the total system of social and cultural relationships; still others refer to an enterprise, such as the United States Steel Corporation or the Department of Defense, as an organization. But for most practicing managers, the term **organization** implies a formalized, intentional structure of roles or positions. In this book, the term is generally used in reference to a formalized structure of roles, although it is sometimes used to denote an enterprise.

Organization A formalized intentional structure of roles or positions.

What does *intentional structure of roles* mean? First, as already implied in the definition of the nature and content of organizational roles, people working together must fill certain roles. Second, the roles people are asked to fill should be intentionally designed to ensure that required activities are done and that activities fit together so that people can work smoothly, effectively, and efficiently in groups. Certainly, most managers believe they are organizing when they establish such an intentional structure.

FORMAL AND INFORMAL ORGANIZATION

Many writers on management distinguish between formal and informal organization. Both types are found in organizations (Figure 7-1). Let us look at them in more detail.

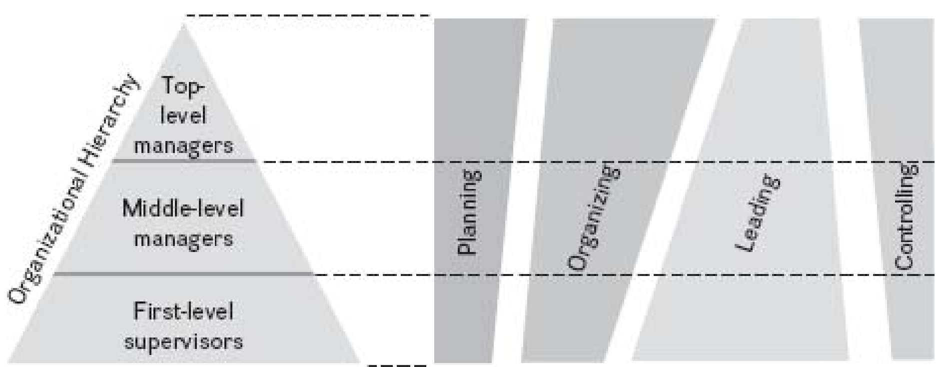

FIGURE 7-1 Formal and informal organization

Formal Organization

In this book, generally, **formal organization** means the intentional structure of roles in a formally organized enterprise. Describing an organization as formal, however, does not mean there is anything inherently inflexible or unduly confining about it. If a manager is to organize well, the structure must furnish an environment in which individual performance, both present and future, contributes most effectively to group goals.

Formal organization The intentional structure of roles in a formally organized enterprise.

A formal organization must be flexible. There should be room for discretion, for beneficial utilization of creative talents, and for recognition of individual likes and capacities in the most formal of organizations. Yet, individual effort in a group situation must be channeled toward group and organizational goals.

Informal Organization

Chester Barnard, author of the management classic *The Functions of the Executive*, described an informal organization as any joint personal activity without conscious joint purpose, although contributing to joint results.[1] It is easier to ask for help on an organizational problem from someone you know personally, even if he or she may be in a different department, than from someone you know only as a name on an organization chart. The **informal organization** is a network of interpersonal relationships that arise when people associate with each other. Thus, informal organizations —relationships not appearing on an organization chart—might include the machine shop group, the sixth floor crowd, the Friday evening bowling gang, and the morning coffee “regulars.”[2]

Informal organization A network of interpersonal relationships that arise when people associate with each other.

ORGANIZATIONAL DIVISION: THE DEPARTMENT

One aspect of organizing is the establishment of departments. The word **department** designates a distinct area, division, or branch of an organization over which a manager has authority for the performance of specified activities. A department, as the term is generally used, may be the production division, the sales department, the West Coast branch, the market research section, or the accounts receivable unit. In some enterprises, departmental terminology is loosely applied; in others, especially large ones, a stricter terminology indicates hierarchical relationships. Thus, a vice president may head a division; a director, a department; a manager, a branch; and a chief, a section.

Department A distinct area, division, or branch of an organization over which a manager has authority for the performance of specified activities.

ORGANIZATIONAL LEVELS AND THE SPAN OF MANAGEMENT*

While the purpose of organizing is to make human cooperation effective, the reason for levels of organization is the limitation of the span of management. In other words, organizational levels exist because there is a limit to the number of persons a manager can supervise effectively, even though this limit varies depending on situations. The relationships between the span of management and organizational levels are shown in Figure 7-2. A wide span of management is associated with few organizational levels; a narrow span, with many levels.

Problems with Organizational Levels

There is a tendency to regard organization and departmentation as ends in themselves and to gauge the effectiveness of organization structures in terms of clarity and completeness of departments and departmental levels. The division of activities into departments and the creation of multiple levels are not completely desirable in themselves.

First, levels are expensive. As they increase, more effort and money are devoted to managing because of the additional managers, the staff to assist them, and the necessity of coordinating departmental activities as well as the cost of facilities for the personnel. Accountants refer to such costs as overhead, burden, or general and administrative in contrast to so-called direct costs. Real production is accomplished by factory, engineering, or sales employees, who are or could logically be accounted as “direct labor.” Levels above the “firing line” are predominantly staffed with managers whose costs it would be desirable to eliminate, if that were possible.

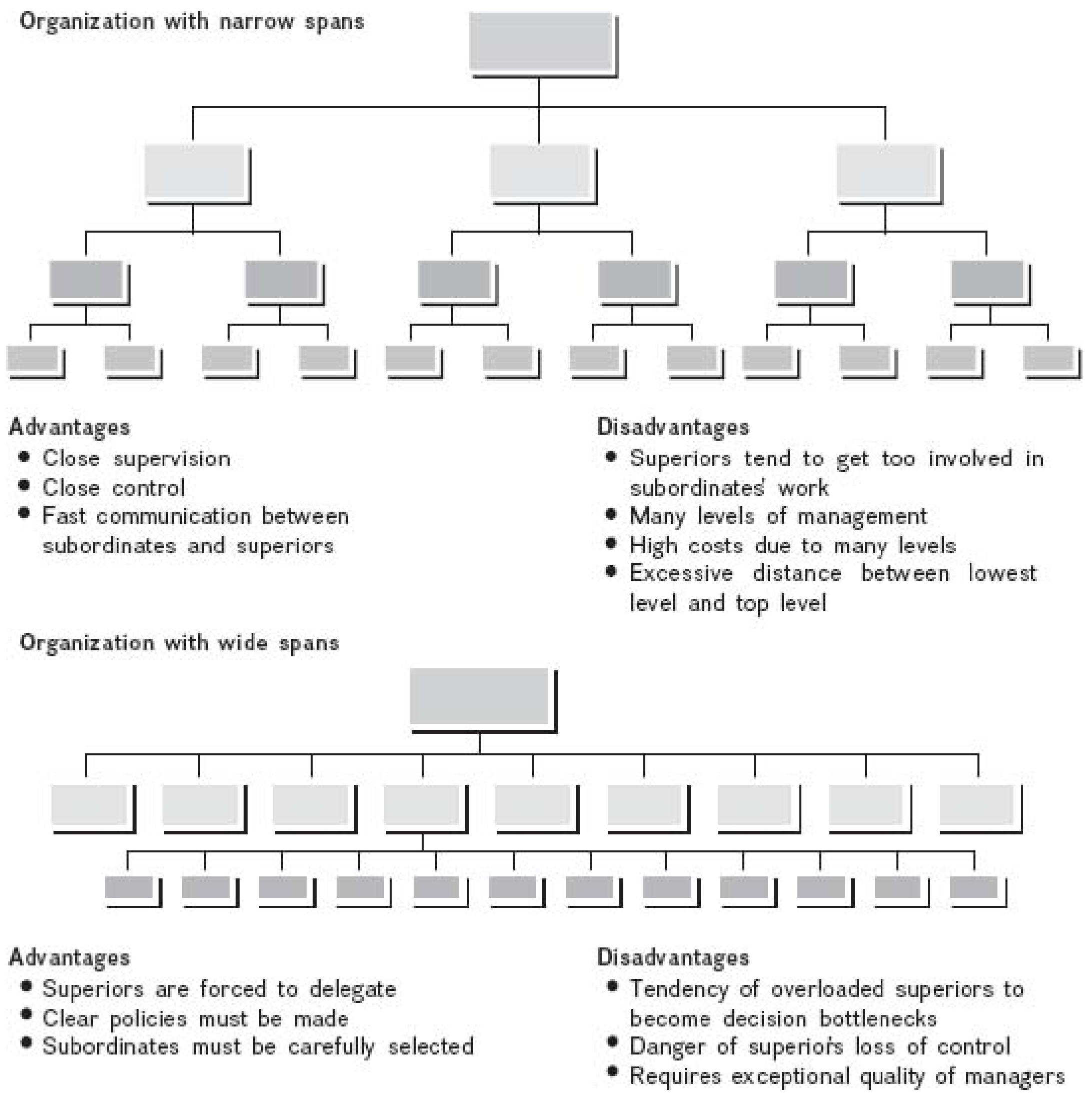

FIGURE 7-2 Organization structures with narrow and wide spans

Second, departmental levels complicate communication. An enterprise with many levels has greater difficulty communicating objectives, plans, and policies downward through the organization structure than does a firm in which the top manager communicates directly with employees. Omissions and misinterpretations occur as information passes down the line. Levels also complicate communication from the "firing line" to the commanding superiors, which is every bit as important as downward communication. It has been well said that levels are "filters" of information.

Finally, numerous departments and levels complicate planning and control. A plan that may be definite and complete at the top level loses coordination and clarity as it is subdivided at lower levels. Control becomes more difficult as levels and managers are added; at the same time, the complexities of planning and difficulties of communication make this control more important.

The Operational Management Position: A Situational Approach

The classical school approach to the span of management deals with specifying the number of subordinates for an effective span. Operational management theorists have taken the position that there are too many underlying variables in a management situation for us to specify any particular number of subordinates that a manager can effectively supervise. Thus, the **principle of the span of management** states that there is a limit to the number of subordinates a manager can effectively supervise, but the exact number will depend on the impact of underlying factors.

Principle of the span of management There is a limit to the number of subordinates a manager can effectively supervise, but the exact number will depend on the impact of underlying factors.

In other words, the dominant current guideline is to look for the causes of limited span in individual situations rather than to assume that there is a widely applicable numerical limit. Examining what consumes the time of managers in their handling of superior-subordinate relationships and ascertaining devices that can be used to reduce these time pressures will be not only a helpful approach for determining the best span in individual cases, but also a powerful tool for finding out what can be done to extend the span without destroying effective supervision. There can be no argument that the costs of levels of supervision make it highly desirable for every individual manager to have as many subordinates as can be effectively supervised.

Factors Determining an Effective Span

The number of subordinates a manager can effectively manage depends on the impact of underlying factors. Aside from such personal capacities as comprehending quickly, getting along with people, and commanding loyalty and respect, the most important determinant is a manager's ability to reduce the time he or she spends with subordinates. This ability naturally varies with managers and their jobs, but several factors materially influence the number and frequency of such contacts and therefore the span of management (Table 7-1).

TABLE 7-1 Factors influencing the span of management

Narrow spans (a great deal of time spent with subordinates)	Wide spans (very little time spent with subordinates)
• Little or no training of subordinates	• Thorough training of subordinates
• Inadequate or unclear authority delegation	• Clear delegation and well-defined tasks
• Unclear plans for non-repetitive operations	• Well-defined plans for repetitive operations
• Unverifiable objectives and standards	• Verifiable objectives used as standards
• Fast changes in external and internal environments	• Slow changes in external and internal environments

• Use of poor or inappropriate communication techniques, including vague instructions	• Use of appropriate techniques such as proper organization structure and written and oral communication
• Ineffective interaction of superior and subordinate	• Effective interaction between superior and subordinate
• Ineffective meetings	• Effective meetings
• Greater number of specialties at lower and middle levels	• Greater number of specialties at upper levels (top managers concerned with external environment)
• Incompetent and untrained manager	• Competent and trained manager
• Complex task	• Simple task
• Subordinates' unwillingness to assume responsibility and reasonable risks	• Subordinates' willingness to assume responsibility and reasonable risks
• Immature subordinates	• Mature subordinates

Need for Balance

There can be no doubt that, despite the desirability of a flat organization structure, the span of management is limited by real and important restrictions. Managers may have more subordinates than they can manage effectively, even though they delegate authority, conduct training, formulate clear plans and policies, and adopt efficient control and communication techniques. It is equally true that, as an enterprise grows, limitations of the span of management force an increase in the number of levels simply because there are more people to supervise.

What is required is more precise balancing in a given situation of all pertinent factors. Widening spans and reducing the number of levels may be the answer in some cases; the reverse may be true in others. One must balance all the costs of adopting one course or the other, not only the financial costs, but also costs in morale, personal development, and attainment of enterprise objectives. In a military organization, perhaps the attainment of objectives quickly and without error would be most important. On the other hand, in a department store operation, the long-run objective of profit may be best served by forcing initiative and personal development at the lower levels of the organization.

AN ORGANIZATIONAL ENVIRONMENT FOR ENTREPRENEURING AND INTRAPRENEURING[3]

At times, special organizational arrangements need to be made for fostering and utilizing entrepreneurship. Frequently, entrepreneurship is thought to apply to managing small businesses, but many authors now expand the concept to large organizations and to managers carrying out entrepreneurial roles through which they initiate changes to take advantage of opportunities. Although it is common to look for the "entrepreneurial personality" in people, Peter Drucker suggests that this search might not be successful.[4] Instead, one should look for a commitment to systematic innovation, which is a specific activity of entrepreneurs. The essence of entrepreneurship is creation, opportunity orientation, and innovation. Entrepreneurial managers within organizations (e.g., intrapreneurs) identify new market opportunities for their organizations and develop new or improved products to meet those market opportunities.

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www.entrepreneur.com

The Intrapreneur and the Entrepreneur

Gifford Pinchot makes a distinction between the intrapreneur and the entrepreneur.[5] Specifically, an **intrapreneur** is a person who focuses on innovation and creativity and who transforms an idea into a profitable venture by operating *within* the organizational environment. This notion is also sometimes referred to as corporate venturing. In contrast, the **entrepreneur** is a person who creates an organization to take advantage of a market opportunity. Entrepreneurs have the ability to see an opportunity, obtain the necessary capital, labor, and other inputs, and then put together an operation successfully. They are willing to take personal risk of success and failure. In this book, the term *entrepreneur* designates an enterprising person working either within or outside the organization.

Intrapreneur A person who focuses on innovation and creativity and who transforms an idea into a profitable venture by operating within an established organizational environment.

Entrepreneur A person who builds an organization to take advantage of a market opportunity.

Innovation Perspective

Marc Andreessen the Coauthor of Mosaic and Cofounder of Netscape Communications Corporation[6]

Andreessen is a software engineer, an entrepreneur, and an investor. He is the coauthor of the first web browser Mosaic. He is also on the board of directors of many companies, including Hewlett Packard, eBay, and Facebook. He earned his Bachelor's degree at the University of Illinois at Urbana-Champaign and worked at the National Center for Supercomputing Applications where he became familiar with open standards for the World Wide Web.

He probably is best known for his vision of the potential of the web browser and was on the cover page of the *Time* magazine. He is considered a model of the Internet bubble generation. More recently, he and his business partner, Ben Horowitz, formed a venture capital firm that invests in products, companies, and entrepreneurs in information enterprises. Marc Andreessen is both an entrepreneur and a visionary leader.

Creating an Environment for Entrepreneurship

Since it is a managerial responsibility to create an environment for effective and efficient achievement of group goals, managers must promote opportunities for entrepreneurs to utilize their potential for innovation. Entrepreneurs take personal risks in initiating change and they expect to be rewarded for it. The taking of reasonable risk will at times result in failure, but this must be tolerated. Finally, entrepreneurs need some degree of freedom to pursue their ideas; this, in turn, requires that sufficient authority be delegated. The personal risks for entrepreneurs who have their own businesses are of a different kind, and failure may mean bankruptcy.

Innovative persons often have ideas that are contrary to "conventional wisdom." It is quite common that these individuals are not well liked by their colleagues and their contributions are often not sufficiently appreciated. It is therefore not surprising that many entrepreneurs leave large companies and start their own business. When Steve Wozniak could not get his dream of building a small computer fulfilled at Hewlett-Packard, he left that prestigious firm to form-together with another entrepreneur, Steve Jobs-Apple Computer. Progressive companies, such as 3M, consciously try to develop an organizational environment that promotes entrepreneurship within the company.

Some ways to enhance the environment and therefore the likelihood of innovative and entrepreneurial behaviors within an organization include:

1. Top management must clearly state that it values innovative and entrepreneurial behavior and create incentives for such activities.
2. Failure in entrepreneurial efforts must be accepted and even celebrated.
3. A clearly defined and sustainable process of soliciting ideas for new products and services must be promulgated.

4. Time and capital resources must be devoted to allow for creative and innovative activities by employees.
5. Senior management must be evaluated in part by the innovations that come from their departments.
6. Corporate goals should include expectations of new revenues and profits from innovations that are developed.

Only when clear processes and incentives for corporate innovation are in place will the corporate innovators and entrepreneurs provide their optimal contributions to the organization.

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Leadership Perspective

What Is in Your Future?[7]

Harvard professor John P. Kotter in his book *The New Rules: How to Succeed in Today's Post-Corporate World* surveyed the careers of 115 Harvard business graduates of 1974. Some of the findings are surprising. Many of the graduates left big businesses and joined smaller companies. Some who started in large firms switched to smaller firms. They felt that large companies were not open to their creative ideas for change nor were they receptive to radical changes. In short, traditional big business firms may be stultifying people with new ideas. Kotter suggests that those with unconventional ideas often succeed. In the rapidly changing environment, managers must search for new opportunities, but they must also avoid the hazards.

Small, entrepreneurial firms often present more opportunity for advancement, are more open to ambiguous situations, and provide the environment for exerting influence. Although many of the Harvard graduates surveyed preferred smaller firms, they may be connected to larger firms as consultants, distributors, suppliers, financiers, or other roles.

What, then, are some of the implications for managers in carrying out managerial functions? Planning needs to be done in a less bureaucratic manner. A frequent scanning of the environment and a rapid response to changes are essential. Small companies, with a smaller hierarchical structure than large firms, may be more willing to change. With respect to staffing, graduates may want to explore the opportunities in smaller companies. The Harvard graduates who worked for small companies were not only better rewarded financially than those in large firms, but they were also rewarded through job satisfaction.

Innovation and Entrepreneurship[8]

When hearing about innovation and entrepreneurship, one thinks immediately of the success stories of people such as Steve Jobs of Apple Computer and Bill Gates of Microsoft. Entrepreneurs have creative ideas; they use their management skills and resources to meet identifiable needs in the marketplace. If successful, an entrepreneur can become wealthy. Peter Drucker suggests that innovation applies not only to high-tech companies, but equally to low-tech established businesses. Worthwhile innovation is not a matter of sheer luck; it requires systematic and rational work, well organized and managed for results.

What does entrepreneurship imply? It suggests dissatisfaction with how things are and an awareness of a need to do things differently. Innovation comes about because of some of the following situations:

- An unexpected event, failure, or success
- An incongruity between what is assumed and what really is
- A process or task that needs improvement
- Changes in the market or industry structure
- Changes in demographics
- Changes in meaning or in the way things are perceived
- Newly acquired knowledge

Innovations based solely on bright ideas may be very risky and at times are not successful. General Electric's ambitious plans for the "factory of the future" may have been a costly mistake. These plans may have been based on unrealistic forecasts and unrealistic expectations for automating industry. The concept of the new factory expressed the wish of the chairperson, who wanted to promote entrepreneurship in an organization that was known to be highly structured.

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The most successful innovations are often the mundane ones. Take certain Japanese automobile and electronic companies, who make minor innovations (e.g., providing little conveniences that customers like) in their cars or in their electronic equipment. Research has shown that successful large companies listen carefully to the needs of their customers. They establish teams that search for creative alternatives to serve their customers, but within a limiting framework and with clear goals in mind.

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REENGINEERING THE ORGANIZATION[9]

Some time ago, a managerial concept called reengineering entered management literature. It is sometimes called "starting over" because Michael Hammer and James Champy, who popularized the concept, suggested that one asks this question: "If I were recreating this company today (from scratch), knowing what I know now and given current technology, what would it look like?"[10]

More specifically, Hammer and Champy define reengineering as "the *fundamental* rethinking and *radical* redesign of business *processes* to achieve *dramatic* improvements in critical contemporary measures of performance, such as cost, quality, service, and speed."[11] The words in italics are considered key aspects by the authors.

Key Aspects of Reengineering

Let us briefly consider these key aspects. First, hardly anyone would disagree on the need for a *fundamental rethinking* of what the organization is doing and why. One of the authors, while working as a systems analyst, found that systems and procedures were often outdated, inefficient, and completely unnecessary. Seldom did systems users question why the procedures were necessary and the purpose they served. So a fresh look, especially by a "systems outsider," can indeed reveal inefficiencies. New thinking about management may provide a new perspective at what is being done and why.

The second key aspect in the definition is *radical redesign* of the business processes. In the original publication, the authors suggested that "radical" meant precisely that—not a modification but a reinvention. They also suggested that this is the most important aspect of their approach. Hammer and Champy, in a later paperback edition of the book, admit that they may have been wrong in suggesting that the most important key aspect is radical redesign.[12] Radical redesign often results in radical downsizing with detrimental effects to organizations.

Downsizing or "rightsizing" is not the primary purpose of reengineering, although in many cases it does result in fewer people being needed. Unfortunately, reengineering has primarily been used in a reactive way by managers intent on reducing costs without necessarily addressing customer needs and expectations. Another result of radical redesigning is a business system based primarily on the engineering model without due considerations given to the human system. While radical redesign accompanied by downsizing may indeed result in short-term cost savings, it may also negatively affect the remaining workforce. Teamwork has become increasingly important in modern organizations. But team efforts are built on trust and trust has to be built over a long period of time. With radical redesign, trust can be destroyed.

The third key term calls for *dramatic results.* Examples are often given to support this key aspect in the definition of reengineering that calls for dramatic improvements. Union Carbide cut $400 million from its fixed costs in three years. GTE, the Baby Bell telephone company, developed one-stop shopping; customers, who once had to deal with various departments, can now deal with one person or they can connect directly with the department providing the specific service sought. But dramatic improvements are moderated by failures. Hammer and Champy admit that "some 50 to 70 percent of reengineering efforts fail to deliver the intended dramatic results."[13]

The fourth key word in the reengineering definition is *processes*. The need for carefully analyzing and questioning business processes is indeed important. However, the process analysis must go beyond operations and must include the analysis and integration of technical systems, human systems, and the total management process, including linkage of the enterprise to an external environment. Engineers may focus on the business process, but to be truly effective, the various subsystems need to be integrated into a total system (Figure 7-3). The model indicates that the process of transforming the inputs into outputs must go beyond the business process system (the focus of reengineering) to include technological and human aspects and indeed the total managerial system.

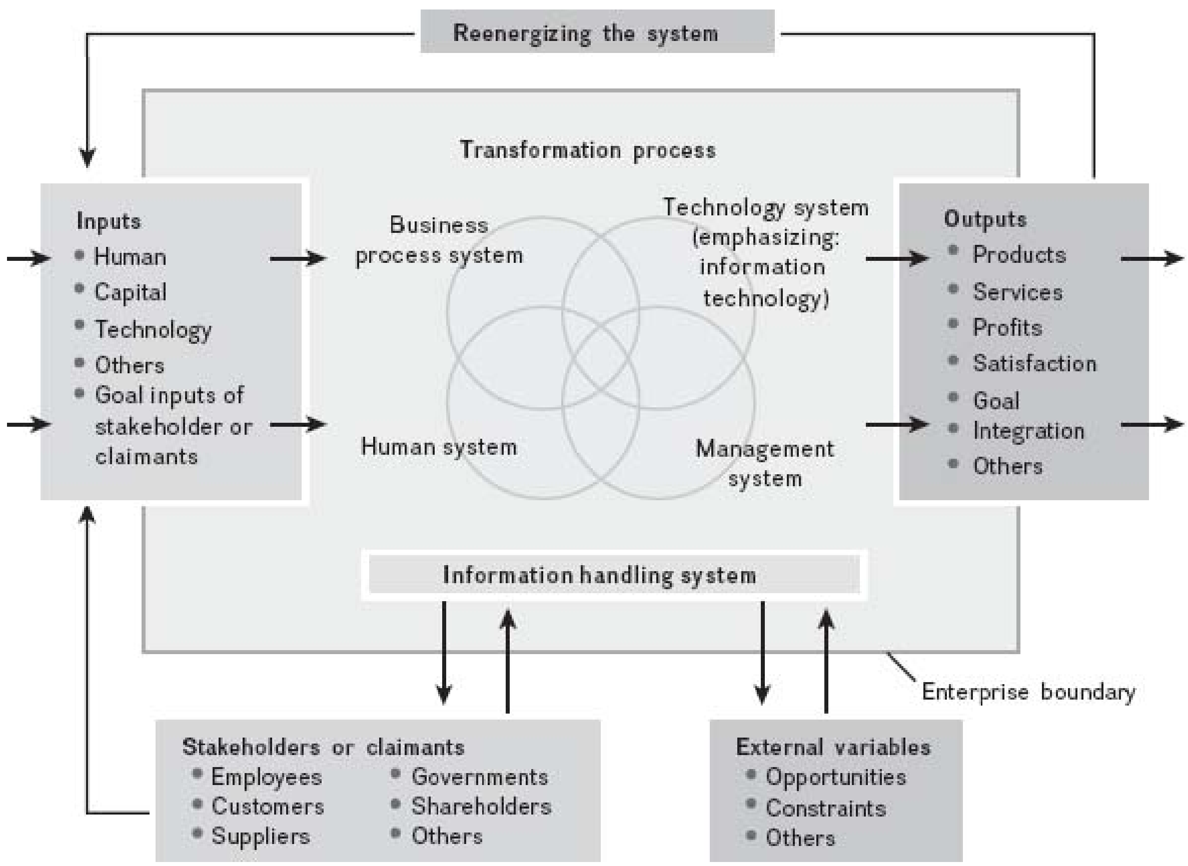

FIGURE 7-3 Management by processes

Despite the limitations, reengineering can be a powerful tool, but it is still only a tool. We suggest integrating reengineering with other systems through a new systems model called management by processes,[14] to overcome some of the weaknesses of the narrowly focused reengineering approach.

THE STRUCTURE AND PROCESS OF ORGANIZING

Looking at organizing as a process requires that several fundamentals be considered. First, the structure must reflect objectives and plans because activities derive from them. Second, it must reflect the authority available to an enterprise's management.

Authority in a given organization is a socially determined right to exercise discretion; as such, it is subject to change.

In the third place, an organization structure, like any plan, must reflect its environment. Just as the premises of a plan may be economic, technological, political, social, or ethical, so may be those of an organization structure. It must be designed to work, to permit contributions by members of a group, and to help people achieve objectives efficiently in a changing future. In this sense, a workable organization structure can never be static. There is no single organization structure that works best in all kinds of situations-an effective organization structure depends on the situation.

Fourth, since the organization is staffed with people, the grouping of activities and the authority relationships of an organization structure must take into account people's limitations and customs. This is not to say that the structure must be designed around individuals instead of around goals and accompanying activities. But an important consideration is the kinds of people who are to staff it.

The Logic of Organizing

There is a fundamental logic to organizing (Figure 7-4). The organizing process consists of the following six steps, although steps 1 and 2 are actually part of planning:

1. Establishing enterprise objectives
2. Formulating supporting objectives, policies, and plans
3. Identifying, analyzing, and classifying the activities necessary to accomplish these objectives
4. Grouping these activities in light of the human and material resources available and the best way, under the circumstances, of using them
5. Delegating to the head of each group the authority necessary to perform the activities
6. Tying the groups horizontally and vertically through authority relationships and information flows

Some Misconceptions

Organizing does not imply any extreme occupational specialization, which in many instances makes work uninteresting, tedious, and unduly restrictive. There is nothing in organization itself that dictates this. To say that tasks should be specific is not to say they must be limited and mechanical. In any organization, jobs can be defined to allow little or no personal leeway or conversely, the widest possible discretion.

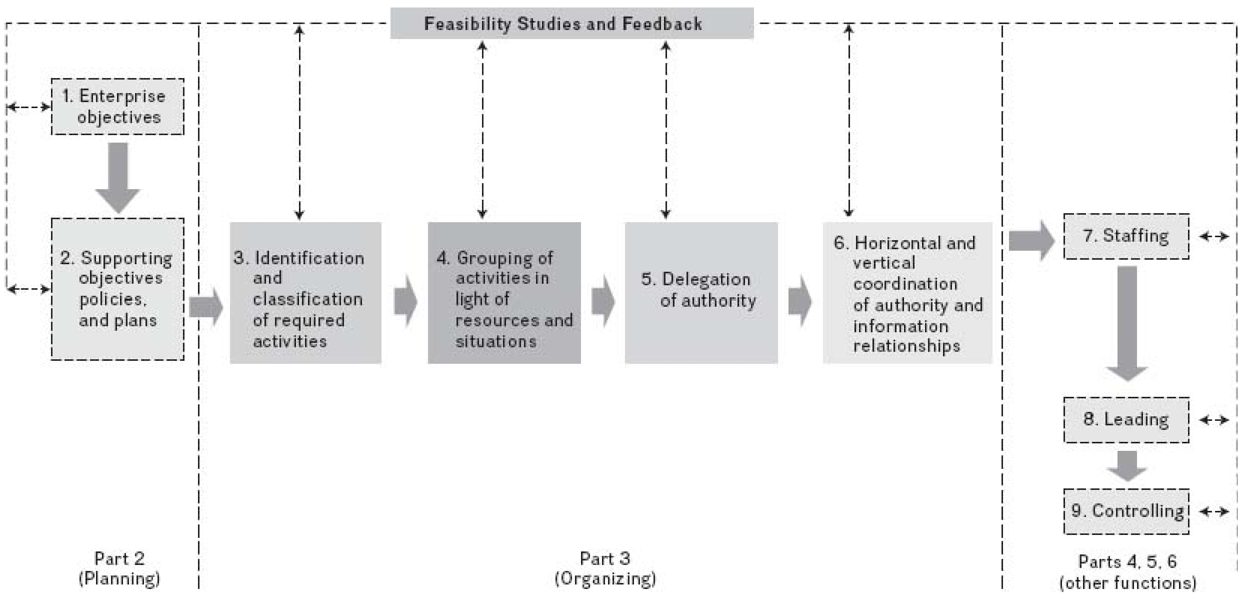

FIGURE 7-4 The organizing process

One must not forget that there is no best way to organize and that the application of structural organization theory must take into account the situation.

BASIC QUESTIONS FOR EFFECTIVE ORGANIZING

It is useful to analyze the managerial function of organizing by raising and answering the following questions:

- What determines the span of management and hence the levels of organization? (answered in this chapter)
- What determines the basic framework of departmentation and what are the strengths and weaknesses of the basic forms? (answered in Chapter 8)
- What kinds of authority relationships exist in organizations? (answered in Chapter 9)
- How should authority be dispersed throughout the organization structure and what determines the extent of this dispersion? (answered in Chapter 9)
- How should the manager make organization theory work in practice? (answered in Chapter 10)

The answers to these questions form a basis for a theory of organizing. When considered along with similar analyses of planning, staffing, leading, and controlling, they constitute an operational approach to management.

SUMMARY

The term *organization* is often used loosely. Formal organization is the intentional structure of roles. Informal organization is a network of personal and social relations neither established nor required by formal authority but arising spontaneously. The span of management refers to the number of people a manager can effectively supervise. A wide span of management results in few organizational levels and a narrow span results in many levels. There is no definite number of people a manager can always effectively supervise; the number depends on several underlying factors. These include the degree of training of subordinates that is required, the clarity of authority delegation, the clarity of plans, the use of objective standards, the rate of change, the effectiveness of communication techniques, the amount of personal contact needed, and the level in the organization.

Intrapreneurs and entrepreneurs focus on innovation and creativity. It is the manager's responsibility to create an

environment that promotes entrepreneurship.

Reengineering that may require a redesign of business processes has become popular in some companies. The results of these efforts have shown not only positive, but also some negative results.

The steps in organizing include formulating objectives and supporting objectives, policies, and plans to achieve the ends (strictly speaking, this is carried out in planning); identifying and classifying activities; grouping these activities; delegating authority; and coordinating authority as well as information relationships.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Organizational role
- Organizing
- Formal organization
- Informal organization
- Department
- Principle of the span of management
- Factors determining the span of management
- Entrepreneuring and intrapreneuring
- Innovation and entrepreneurship
- Reengineering, key aspects
- Logical steps of organizing
- Basic questions for effective organizing

FOR DISCUSSION

1. Since the positions in an organization must be occupied by people and since an effective organization depends on people, it is often said that the best organization arises

when a manager hires good people and lets them do their jobs in their own way. Comment.

2. A formal organization is often conceived of as a communication system. Is it? How?
3. Construct a diagram depicting the formal organization of an enterprise or activity with which you are familiar. How does this organization chart help or hinder the establishment of an environment for performance?
4. Using the same enterprise or activity as in question 3, chart its informal organization. Does it help or hinder the formal organization? Why?
5. When you become a manager, what criteria will you favor to determine your span of management?

EXERCISES/ACTION STEPS

1. Organize a family picnic using the steps suggested in this chapter.
2. Interview a manager in your community and ask him or her how many subordinates he or she has. Are different numbers of subordinates supervised at the top, the middle, and the bottom of the organizational hierarchy? What really determines the span of management in this organization? Do you think the span is appropriate for the enterprise?
3. Offer to provide a reference to a colleague on LinkedIn.

Entrepreneurial Case

Expanding a Venture Capital Firm from the Silicon Valley to Bangalore[15]

Venture capital is a type of private equity that is invested in promising new business with high growth potential. We use products and services from well-known firms that were financed by venture capital when they were little more than a concept (e.g., Apple, Google, Facebook, etc.). Venture capital is used to finance high potential (often high technology) firms around the world; however, Silicon Valley has been the primary source hub of venture investing for many years. Still, the internationalization of commerce and increasing interconnectedness of opportunity and talent is not lost on the venture industry. While venture capitalists (VCs) are known to invest in firms geographically near their own location due to their high involvement with the firms they finance, VCs have over the recent years expanded the reach of their investing when they discover disruptive technologies or talent far away from their home base.

Still, venture investing is a high-touch business that requires frequent face-to-face interaction between the VC and the entrepreneur. So, informed international investing often requires a local presence in the market where the entrepreneurial firm is growing. Some venture firms have stepped up to this challenge and have established offices in countries far from their traditional base of investing. New venture capital offices associated with Silicon Valley firms have been set up in Europe, Asia, and Latin America.

Draper Fisher Jurvetson (DFJ) is a highly regarded Silicon Valley venture capital firm that is known for prescient investments in some of today's leading technology firms (e.g., Yahoo, Sybase, Skype [acquired by eBay], etc.). DFJ recognized the increasingly international nature of technology development and opportunity and has gone to where it is occurring, establishing an office in China in 2006 and India in 2007. Mohanjit Jolly is the executive director of DFJ India, relocating to Bangalore in 2007. Previously, Mr. Jolly was with Garage Technology Ventures, a seed stage venture capital firm in the Silicon Valley. We asked Mohanjit why he chose to return to India in this capacity after a successful career as an entrepreneur and VC in the United States. Mr. Jolly indicated "...leveraging a platform like DFJ was too good to pass up. India is and will continue to be a growth story for a long time to come. To be in India during the nascent stages of the venture capital ecosystem development was also inviting, since I could bring a bit of the Silicon Valley DNA to the Indian start-up environment."

However, helping build an industry like the venture capital industry, even with the support of the home office and global brand, presents its own challenges. When asked what have been the biggest challenges he has faced in this endeavor, Mohanjit shared that "Getting a business up and running in India is more challenging than it is in the U.S. The process was unknown to me, so I had to get the right help with respect to legal, accounting, tax, audit, banking, IT, etc." He noted that finding the right office space (right size, location [proximity to the airport], etc.) was an unexpectedly large challenge. Mohanjit shared that he was told early on that it would take a year or more to settle back into Bangalore both professionally and personally, and he found this to be true. But the increasing links between venture firms in India back to the Silicon Valley have at least standardized some of the processes between the two places. When asked if he advises India-based portfolio firms differently than those in the United States, he explained, "Scaling companies in India is more difficult than in the U.S. Lack of infrastructure, whether it's broadband or logistics makes it difficult for products or services to spread virally..." Indian entrepreneurs and managers must find ways to adapt to these local challenges and in doing so may identify new business models that bring their own competitive edge.

Mr. Jolly expects the venture capital industry to blossom in India over the next few years as more capital flows into local funds and ideally some successful exits of venture- backed Indian firms. He advises students who have an interest in pursuing a venture capital career to gain operating experience at a small to midsize company first.

Questions

1. What other management challenges do you see for a U.S.-based venture firm that establishes operations in India?
2. What type of organizational structure is DFJ employing across its offices? Is this the most appropriate structure? Why?
3. Identify at least one Indian firm that has raised venture capital. Describe its business and estimate its likelihood for long-term success.
4. Examine the background of the DFJ India management team (http://www.dfj. com/). What experiences and capabilities do they have that make them uniquely able to lead a venture capital firm?

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15. Interview conducted by email with Mr. Mohanjit Jolly on October 19, 2009, by Mark Cannice.

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* In much of the literature on management, this is referred to as the *span of control*. Despite the widespread use of this term, in this book span of management will be used, since the *span is one of management* and not merely of control, which is only one function of managing.

CHAPTER 8

Organization Structure: Departmentation

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Identify the basic patterns of traditional departmentation and their advantages and disadvantages
2. Analyze matrix organizations
3. Explain strategic business units
4. Examine organization structures for global enterprises
5. Understand the virtual and boundaryless organizations
6. Recognize that there is no single best pattern of departmentation

The limitation on the number of subordinates that can be directly managed would restrict the size of enterprises if it were not for the device of departmentation. Grouping activities and people into departments makes it possible to expand organizations—at least in theory—to an indefinite degree. Departments, however, differ with respect to the basic patterns used to group activities. The nature of these patterns, developed out of logic and practice, and their relative merits will be dealt with in the following sections.

At the outset, it must be emphasized that there is no single best form of departmentation that is applicable to all organizations or to all situations. The pattern used will depend on the given situations and on what managers believe will yield the best results for them in the situation they face. The pattern may also be based on the concepts of reengineering, discussed in the previous chapter.

DEPARTMENTATION BY ENTERPRISE FUNCTION

Grouping activities in accordance with the functions of an enterprise-functional departmentation-embodies what enterprises typically do. Because all enterprises undertake the creation of something useful and desired by others, the basic enterprise functions are production (creating utility or adding utility to a product or service), selling (finding customers, patients, clients, students, or members who will agree to accept the product or service at a price or for a cost), and financing (raising and collecting, safeguarding, and expending the funds of the enterprise). It has been logical to group these activities into such departments as engineering, production, selling or marketing, and finance. Figure 8-1 shows a typical functional grouping for a manufacturing company.

Departmentation by enterprise function Grouping of activities according to the functions of an enterprise such as production, sales, and financing.

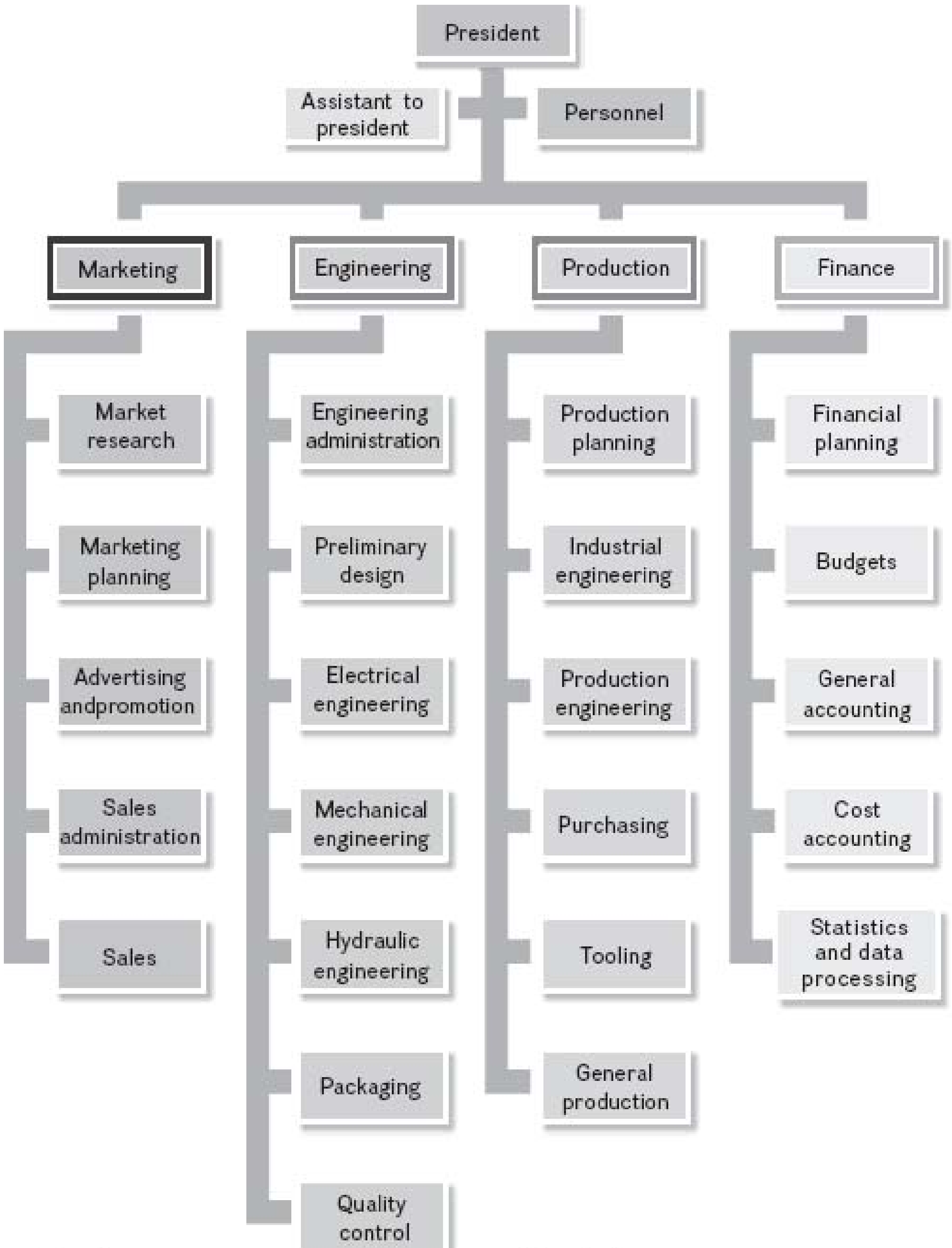
Often, these particular functional designations do not appear in the organization chart. First, there is no generally accepted terminology: a manufacturing enterprise employs the terms production, sales, and finance; a wholesaler is concerned with such activities as buying, selling, and finance; and a railroad is involved with operations, traffic, and finance.

A second reason for the variance of terms is that basic activities often differ in importance: hospitals have no sales departments; churches, no production departments. This does not mean that these activities are not undertaken; rather, they are unspecialized or narrower in scope that they are combined with other activities.

A third reason for the absence of sales, production, or finance departments in many organization charts is that other methods of departmentation may have been deliberately selected. Those responsible for the enterprise may decide to organize on the basis of product, customer, territory, or marketing channel (the way goods or services reach the user).

Functional departmentation is the most widely used basis for organizing activities and is present in almost every enterprise at some level in the organization structure. The characteristics of the selling, production, and finance functions of enterprises are so widely recognized and thoroughly understood that they are the basis not only of departmental organization, but also, most often, of departmentation at the top level.

Coordination of activities among departments may be achieved through rules and procedures, various aspects of planning (e.g., goals and budgets), the organizational hierarchy, personal contacts, and sometimes liaison departments. Such a department may be used to handle design or change problems between engineering and manufacturing. The advantages and disadvantages of departmentation by enterprise function are listed in Figure 8-1.



Advantages

- Logical reflection of functions
- Maintains power and prestige of major functions
- Follows principle of occupational specialization
- Simplifies training
- Furnishes means of tight control at top

Disadvantages

- De-emphasizes overall company objectives
- Overspecializes and narrows viewpoints of key personnel
- Reduces coordination between functions
- Responsibility for profits is at the top only
- Slow adaptation to changes in the environment
- Limits development of general managers

FIGURE 8-1 A functional organization grouping (in a manufacturing company)

Some firms that are faced with shortening product life cycles and the need for rapid innovation create internal venture capital divisions. These divisions seek out smaller technology firms in which to make an investment. These investments may give new insight or access to newly emerging technologies. These investments may also have the objectives of helping support the development of an ecosystem of other companies that either use or support the primary products of the parent organization.

Innovative Perspective

Intel Capital

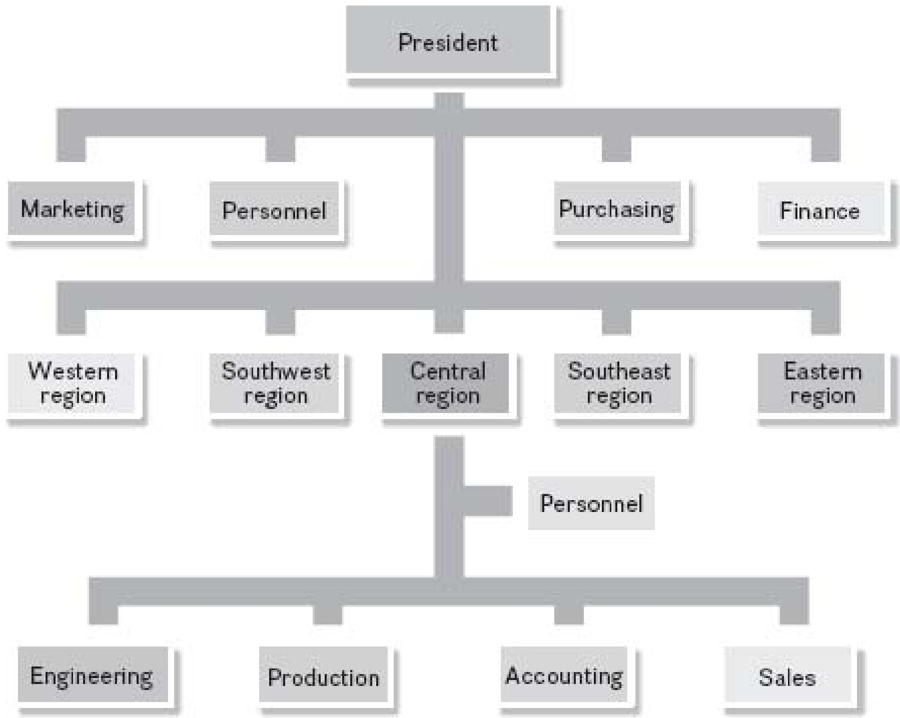
Intel Capital was established in 1991 and has invested over $10 billion in more than 1,000 companies around the world. Many of the firms in which it has invested have become public companies in their own right. Other firms in which it has invested are more of a strategic nature, in that they provide technologies that Intel may eventually use itself or provide elements crucial to an ecosystem in which Intel products may reach more users. Some notable firms that Intel Capital has invested in include Broadcom Corporation, Inktomi Corporation, Red Hat and Research in Motion, and WebMD. Corporate venture capital like independent venture capital firms plays a key role in supporting independent entrepreneurship and corporate innovation.

DEPARTMENTATION BY TERRITORY OR GEOGRAPHY

Departmentation based on territory is common in enterprises that operate over wide geographic areas. In this case, it may be important that activities in a given area or territory be grouped and assigned to a manager (Figure 8-2).

Departmentation by territory or geography Grouping of activities by area or territory is common in enterprises operating over wide geographic areas.

Although territorial departmentation is especially attractive to large-scale firms or other enterprises whose activities are physically or geographically dispersed, a plant that is local in its activities may assign the personnel in its security department on a territorial basis, placing two guards at each of the south and west gates, for example. Department stores assign floorwalkers on this basis, and it is a common way to assign janitors, window washers, and the like. Business firms resort to this method when similar operations are undertaken in different geographic areas, as in automobile assembling, chain retailing and wholesaling, and oil refining. Many government agencies—the tax department, the central bank, the courts, and the postal service, among others—adopt this basis of organization in their efforts to provide like services simultaneously across the nation. Territorial departmentation is most often used in sales and in production; it is not used in finance, which is usually concentrated at the headquarters.



Advantages
- Places responsibility at a lower level
- Places emphasis on local markets and problems
- Improves coordination in a region
- Takes advantage of economies of local operations
- Better face-to-face communication with local interests
- Furnishes measurable training ground for general managers

Disadvantages
- Requires more persons with general manager abilities
- Tends to make maintenance of economical central services difficult and may require services such as personnel or purchasing at the regional level
- Makes control more difficult for top management

FIGURE 8-2 A territorial or geographic organization grouping (in a manufacturing company)

The advantages and disadvantages of departmentation by territory or geography are shown in Figure 8-2.

DEPARTMENTATION BY CUSTOMER GROUP

Grouping activities so that they reflect a primary interest in customers is common in a variety of enterprises. Customers are the key to the way activities are grouped when each customer group is managed by one department head. The industrial sales department of a wholesaler that also sells to retailers is a case in point. Business owners and managers frequently arrange activities on this basis to cater to the requirements of clearly defined customer groups.

Departmentation by customer group Grouping of activities that reflects a primary interest in customers.

For the structure and the advantages and disadvantages of customer departmentation, see Figure 8-3.

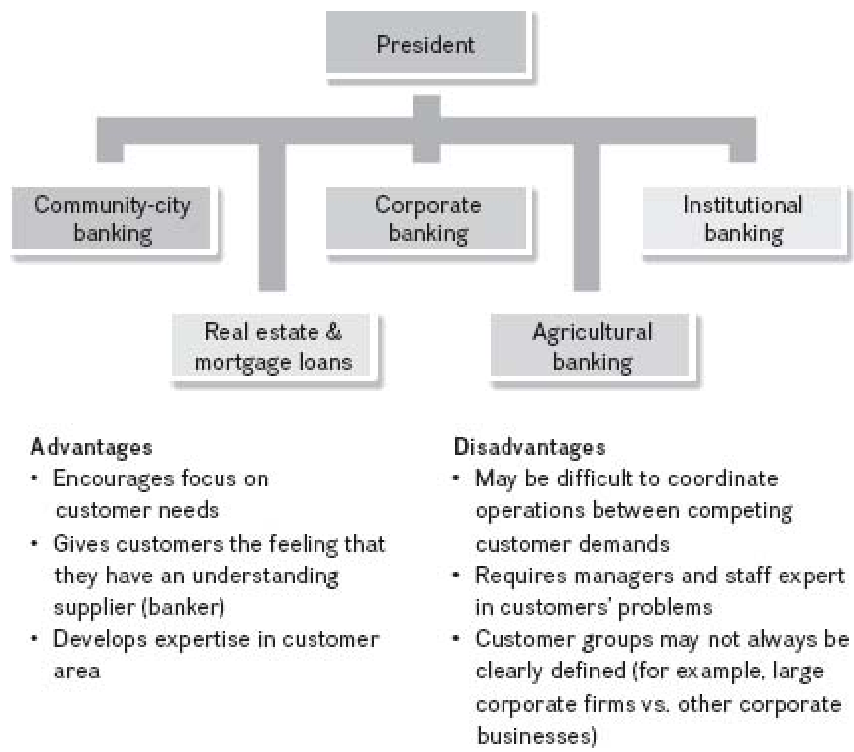
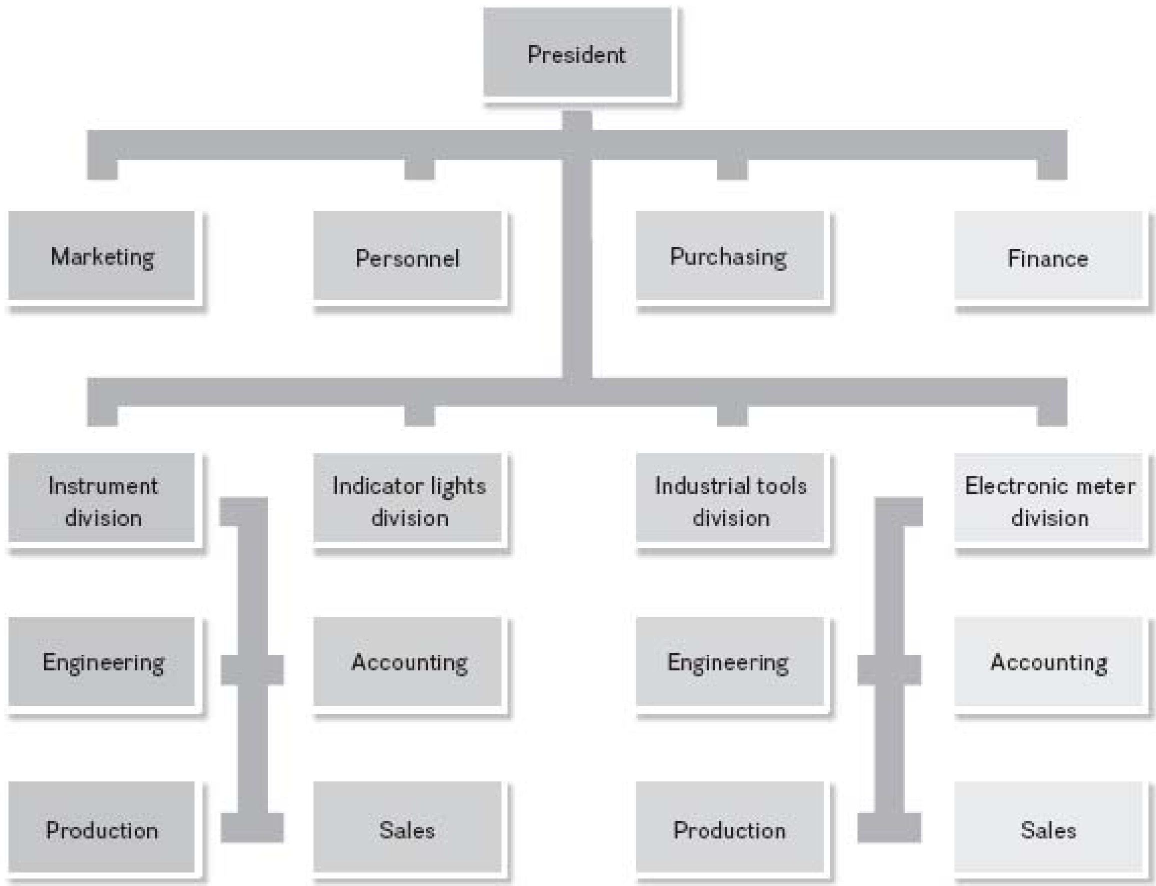


FIGURE 8-3 Customer departmentation (in a large bank)

DEPARTMENTATION BY PRODUCT

Grouping activities on the basis of products or product lines has been growing in importance in multiline, large-scale enterprises. It can be seen as an evolutionary process. Typically, companies and other enterprises adopting this form of departmentation were organized by enterprise functions. With the growth of the firm, production managers, sales and service managers, and engineering executives encountered problems of size. The managerial job became complex, and the span of management limited the managers' ability to increase the number of immediate subordinate managers. At this point, reorganization on the basis of product division became necessary. This structure permits top management to delegate to a division executive extensive authority over the manufacturing, sales, service, and engineering functions that relate to a given product or product line and to exact a considerable degree of profit responsibility from each of these managers. Figure 8-4 shows an example of a typical product organization grouping for a manufacturing company,* together with the advantages and disadvantages of such departmentation.

Departmentation by product Grouping of activities according to products or product lines, especially in multiline, large enterprises.



Advantages
- Places attention and effort on product line
- Facilitates use of specialized capital, facilities, skills, and knowledge
- Permits growth and diversity of products and services
  Improves coordination of functional activities
- Places responsibility for profits at the division level
- Furnishes measurable training ground for general managers

Disadvantages
- Requires more persons with general manager abilities
- Tends to make maintenance of economical central services difficult
- Presents increased problem of top management control

FIGURE 8-4 A product organization grouping (in a manufacturing company)

In considering advantages, it is essential to avoid oversimplification. Product line managers may be saddled with heavy overhead costs, allocated from the expense of operating the headquarters office, perhaps a central research division, and frequently, many central service divisions. Product managers understandably resent being charged with costs over which they have no control.

MATRIX ORGANIZATION

Another kind of departmentation is matrix or grid organization or project or product management. However, pure project management need not imply a grid or matrix. The essence of **matrix organization** normally is the combining of functional and project or product patterns of departmentation in the same organization structure. As shown in Figure 8-5, which depicts matrix organization in an engineering department, there are functional managers in charge of engineering functions and an overlay of project managers responsible for the end product. While this form is common in engineering and in research and development, it has also been widely used, although seldom drawn as a matrix, in product marketing organization.

Matrix organization The combining of functional and project or product patterns of departmentation in the same organization structure.

This kind of organization occurs frequently in construction (e.g., building a bridge), in aerospace (e.g., designing and launching a weather satellite), in marketing (e.g., an advertising campaign for a major new product), in the installation of an electronic data processing system, or in management consulting firms where management experts work together on a project.

Guidelines for Making Matrix Management Effective

Matrix management can be made more effective by following these guidelines:

- Define the objectives of the project or task.
- Clarify the roles, authority, and responsibilities of managers and team members.
- Ensure that influence is based on knowledge and information rather than on rank.
- Balance the power of functional and project managers.

- Select an experienced manager for the project who can provide leadership.

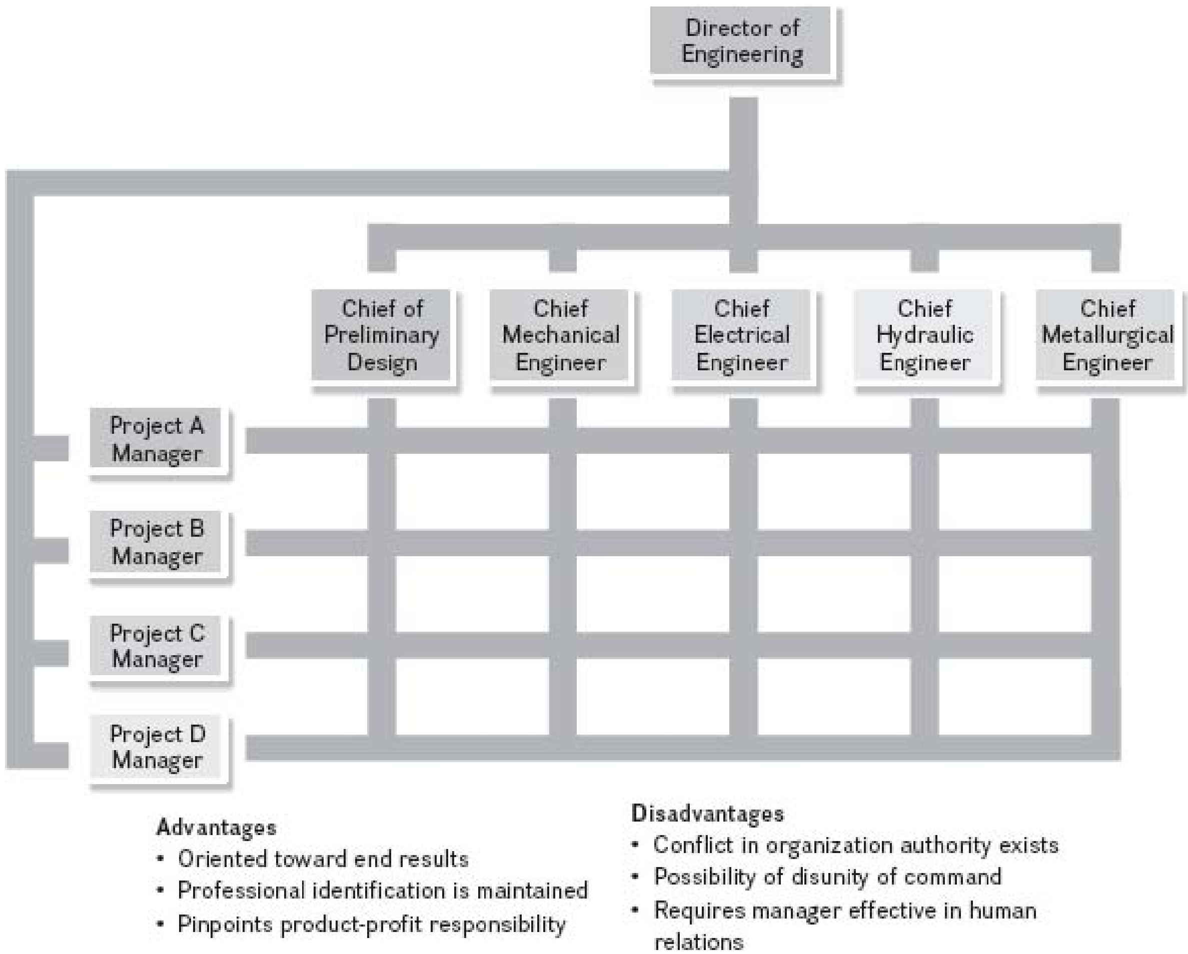


FIGURE 8-5 Matrix organization (in engineering)

- Undertake organization and team development.
- Install appropriate cost, time, and quality controls that report deviations from standards in a timely manner.
- Reward project managers and team members fairly.

STRATEGIC BUSINESS UNITS

Companies have been using an organizational device generally referred to as a **strategic business unit** (SBU). SBUs are distinct businesses set up as units in a large company to ensure that certain products or product lines are promoted and handled as though each were an independent business. One of the earlier users of this organizational device was General Electric, which wanted to ensure that each product or product line of the hundreds offered by the company would receive the same attention as it would if it were developed, produced, and marketed by an independent company. In some cases, companies have also used the device for a major product line. Occidental Chemical Company, for example, used it for such products as phosphates, alkalies, and resins.

Strategic business units Distinct businesses set up as units in a larger company to ensure that certain products or product lines are promoted and handled as though each were an independent business.

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Generally, to be called an SBU, a business unit must meet specific criteria. For example, it must have its own mission, distinct from the missions of other SBUs; have definable groups of competitors; prepare its own integrative plans fairly distinct from those of other SBUs; manage its own resources in key areas; and be of an appropriate size, neither too large nor too small. Obviously, in practice, it might be difficult to establish SBUs that meet all these criteria.

For each SBU, a manager (usually a business manager) is appointed with the responsibility of guiding and promoting the product from the research laboratory through product engineering, market research, production, packaging, and marketing and with bottom-line responsibility for its profitability. Thus, an SBU is given its own mission and goals as well as a manager who, with the assistance of full-time or part-time staff (people from other departments assigned to the SBU on a part-time basis), will develop and implement strategic and operating plans for the product. The organization of a typical SBU, such as that for phosphates in Occidental Chemical, is shown in Figure 8-6. Note that reporting to the business manager for phosphates are all the functions that would be found necessary in a separate company.

Obviously, the major benefit of utilizing an SBU organization is to provide assurance that a product will not get “lost” among other products (usually those with larger sales and profits) in a large company. It preserves the attention and energies of a manager and staff whose job it is to guide and promote a product or product line. It is thus an organizational technique for preserving the entrepreneurial attention and drive so characteristic of small companies. In fact, it is an excellent means of promoting entrepreneurship, which is likely to be lacking in large companies.

Potential Problems with Strategic Business Units[1]

C. K. Prahalad and Gary Hamel, two professors in strategic management, suggest that companies should invest in their core competencies and watch out for the tyranny of SBUs. The **core competency** is the organization’s collective learning, especially the capability to coordinate the different production skills and the integration of these skills into what they call “streams of technology.” For example, for car maker Honda, engines are the core products to which design and development skills are directed that result in end products such as cars and motorcycles. If the motorcycle division had received resources for development, it may not share this technology with a car division. The allocation of resources to individual SBUs can result in the underinvestment in core competencies (such as in engines) that benefit the total organization. Also, SBU managers may not be willing to share talented people and may hide them rather than lend them to another SBU.

Core competency Collective learning, coordination, and integration of skills to obtain “streams of technology.”

FIGURE 8-6 Typical strategic business unit organization (in a large industrial chemical company)

ORGANIZATION STRUCTURES FOR THE GLOBAL ENVIRONMENT

Organization structures differ greatly for enterprises operating in the global environment. The kind of structure depends on a variety of factors, such as the degree of international orientation and commitment. A company may begin internationalizing its operation by simply creating at its headquarters an international department headed by an export manager. As the company expands its international operation, foreign subsidiaries and international divisions may be established in various countries, reporting to a manager in charge of global operation at headquarters or possibly the chief executive officer (CEO). With further growth of the international operations, several countries may be grouped into regions, such as Africa, Asia, Europe, and South America. Furthermore, the European division (and other divisions as well) may then be divided into groups of countries, such as the European Union (EU), non-EU, and Eastern European countries.

Companies may also choose other forms of departmentation in addition to the geographic pattern. For example, an oil company may subdivide the functional group for exploration according to regions, such as exploration in Alaska or in the Persian Gulf. Similarly, the functional groups of refining and marketing may be subdivided into the various regions. Clearly, petroleum products may be marketed in areas other than those where exploration or production takes place.

THE VIRTUAL ORGANIZATION[2]

The **virtual organization** is a rather loose concept of a group of independent firms or people that are connected through (usually) information technology. These firms may be suppliers, customers, and even competing companies. The aim of the virtual organization is to gain access to another firm's competence, to gain flexibility, to reduce risks, or to respond rapidly to market needs. Virtual organizations coordinate their activities through the market where each party sells its goods and services.

Virtual organization A rather loose concept of a group of independent firms or people that are connected through (usually) information technology.

The virtual organization has advantages and disadvantages. When IBM developed the personal computer in 1981, all major components were acquired from other companies. This enabled IBM to market the product in 15 months. The microprocessor was bought from Intel and the software was developed by Microsoft. The "open" architecture was based on well-known standards and components could be purchased from many vendors. By using outside parties, IBM had to invest little for its decentralized strategy. Later, however, the open architecture strategy revealed its downside. Other firms could purchase microprocessors directly from Intel and the software operating system from Microsoft.

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Virtual organizations may have neither an organization chart nor a centralized office building. The modern library may not be a building with lots of bookshelves. One may never have to visit a library-a database, a computer, a modem, and a password may be all that is necessary to access the library. The Open University in the United Kingdom may be one example of a university without a place. It has a home base with an administrative body but no students. The students are spread all over the world and so are the professors. They may never meet each other. The technological possibilities are exciting, but how do we manage people we never see? Clearly, many unanswered questions surround the virtual organization.

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THE BOUNDARYLESS ORGANIZATION

Jack Welch, former CEO of General Electric, stated his vision for the company as a "boundaryless company." By this he meant an "open, anti-parochial environment, friendly toward the seeking and sharing of new ideas, regardless of their origin."[3] The purpose of this initiative was to remove barriers between the various departments as well as between domestic and international operations. To reward people for adopting the "integration model," bonuses were awarded to those who not only generated new ideas, but also shared them with others.

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Entrepreneurial Perspective

Structuring a Start-Up Company

New ventures often begin their organizational lives as a virtual organization. Often, entrepreneurially minded friends and colleagues begin to formulate a start-up enterprise while holding on to their "day jobs." In coffee shops throughout the Silicon Valley, you will often overhear conversations of optimistic entrepreneurs discussing ideas for the next great Internet firm. These entrepreneurs are often employed by other firms, yet they dream and plan their own new venture with trusted friends. Organizing their new venture through email, instant messaging, and Skype, entrepreneurs develop very loose organizational structures—granting titles and responsibilities to their nascent management team. Typically, these early structures are functional in nature. For example, one partner may be the chief technical officer while another is chief marketing officer, and so on. Business cards, company logos, and a website are quickly developed, and the virtual start-up is underway and commences a search for customers and financing. If the firm meets some early success, a more formal structure normally ensues with legal entity status and office space. Further success and venture financing normally mean new experienced management for the enterprise to help ensure steady growth. However, if the firm fails, the early virtual structure allows it to easily dissemble and allow the would-be entrepreneurs to "keep their day jobs" and dream of their next entrepreneurial effort.

CHOOSING THE PATTERN OF DEPARTMENTATION[4]

There is no one best pattern of departmentation that is applicable to all organizations and all situations. Managers must determine what is best by looking at the situation they face: the jobs to be done and the way they should be done, the people involved and their personalities, the technology employed in the department, the users being served, and other internal and external environmental factors in the situation. However, if they know the various departmentation patterns and the advantages, disadvantages, and dangers of each, practicing managers should be able to design the organization structure most suitable for their particular operations.

Innovative Perspective

Interview with Dr. Clara Tao, Vice President of Sensory and Consumer Insights, Tragon, on Aligning Organizational Structure with Market Intelligence for Strategic Innovation[5]

To successfully implement their strategies and promote innovation, firms must employ organizational structures that align their employees' efforts and best serve their customers' needs. Of course, to meet their customers' needs, companies must develop a detailed understanding of their current and potential customers. Tragon is a marketing research firm that helps businesses around the world define and improve their position in the marketplace by gaining a better understanding of their customers. In fact, Tragon has been a leader in sensory evaluation since its founding in 1974 by Dr. Herbert Stone and Mr. Joel Sidel. Clara Tao, PhD, is the director of consumer insights with Tragon. In this role, she leads a team of scientists, sensory experts, and project managers in the design and implementation of marketing research projects that identify aspects of their clients' current and potential products that are most relevant to the marketplace. Using this new customer insight, firms can more effectively innovate on their current products and services.

Given the central role that market intelligence plays in the effective organizational structure of a firm, we asked Dr. Tao to comment on how Tragon works with its clients to provide this information. Dr. Tao stated, "Companies often wish to understand how their products may perform with target consumers versus the competition. Sensory evaluation and consumer testing are integral to an understanding of consumers' perception of a product. While traditional market research identifies a consumer's preference (e.g., which product is preferred) Tragon's approach answers why a preference exists and defines precisely what changes need to occur in order to make a better product. This guidance often enables our clients to craft more informed decisions." She continued, "Many Tragon clients have optimized or reformulated products based on our sensory evaluation and consumer test results." These reformulated products may populate new market segments and thus call for a new approach to the market.

Whether a firm chooses to structure by customer or product group, or by function or SBU, a clear and current understanding of its customers is vital. Sophisticated marketing research and sensory evaluation tools, like those provided by Tragon, enable company managers to make better organizational design decisions that lead to the effective implementation of core market strategies and product and process innovations.

The Aim: Achieving Objectives

Departmentation is not an end in itself but is simply a method of arranging activities to facilitate the accomplishment of objectives. Each method has its advantages and disadvantages. Consequently, the process of selection involves a consideration of the relative advantages of each pattern at each level in the organization structure. In all cases, the central question concerns the type of organizational environment that the manager wishes to design and the situation being faced. The preceding discussion of the alternative methods of departmentation shows that each method yields certain gains and involves certain costs.

Mixing Types of Departmentation

Another point to be highlighted concerns the mixing of types of departmentation within a functional area. For example, a wholesale drug firm has grouped the buying and selling activities relating to beverages in one product department, but it has grouped, on the same level, all other selling activities on a territorial basis. A manufacturer of plastic goods has territorialized both the production and the sale of all its products except dinnerware, which is itself a product department. A functional department manager may, in other words, employ two or more bases for grouping activities on the same organizational level. Such practices may be justified on logical grounds. The objective of departmentation is not to build a rigid structure, balanced in terms of levels and characterized by consistency and identical bases, but to group activities in the manner that will best contribute to achieving enterprise objectives. If a variety of bases does this, there is no reason why managers should not take advantage of the alternatives before them.

SUMMARY

The grouping of activities and people into departments makes organizational expansion possible. Departmentation can be done by enterprise function, by territory or geography, and by the kinds of customers served. Other kinds of departmentation are the product organization grouping, matrix or grid organization, project organization, and the SBU. The organization structure for the global environment may vary greatly, ranging from having an export department at the headquarters to regional groupings with many variations in between. In addition, companies may have also one or more functionally organized groupings within a region. The virtual organization is a loose concept of a group of independent companies or people that are connected often through computer technology.

There is no single best way to organize; the most appropriate pattern depends on various factors in a given situation. These factors include the kind of job to be done, the way the task must be done, the kinds of people involved, the technology, the people served, and other internal and external considerations. At any rate, the selection of a specific departmentation pattern should be done so that organizational and individual objectives can be achieved effectively and efficiently. Accomplishing this goal often requires mixing forms of departmentation.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Departmentation by enterprise function
- Departmentation by territory or geography
- Departmentation by customer group
- Departmentation by product
- Matrix organization (or grid, or project, or product)
- Strategic business unit
- Organization structures for global enterprises
- Virtual organization
- Boundaryless organization
- Choosing the pattern of departmentation

FOR DISCUSSION

1. Some sociologists tell us that organization structuring is a social invention. What do you think they mean? Do they imply that there is a "right" or "wrong" way to organize? What would you suggest as a test of whether an organization structure is "right?"
2. If you were the president of a company that was organized along functional lines and a consultant suggested that you organize along territorial or product lines, what might concern you in following this recommendation?
3. Why do most large department store and supermarket chains organize their stores on a territorial basis and the internal store units by products? Give examples from your own experience.

4. Why do most small companies use functionally organized departments?
5. Why are so many national government agencies organized primarily on a territorial basis?
6. Do you see any reasons why managing by objectives may result in increased use of matrix organization structures?
7. How does this chapter illustrate a situational approach to management?

EXERCISES/ACTION STEPS

1. Divide the class into groups of four or five students (depending on class size). Assign one pattern of departmentation to each group (assign two to each if the class is small). The groups should discuss (a) the nature of the assigned departmentation, (b) companies that use this departmental arrangement, and (c) the advantages and disadvantages of this form of departmentation.
2. Select a company and identify the departmentation pattern (or patterns) it uses. Draw an organization chart for the firm. Why do you think the company selected the type of departmentation it did? Would you recommend it?
3. Select several interest groups to follow on your LinkedIn account.

INTERNET RESEARCH

1. Search the Internet for the term "matrix organization" to find examples of the grid. Also, note the difficulties those companies may have encountered.
2. Search the Internet for the term "strategic business units." Look for the ways that various organizations are utilizing

such units to enhance their management.

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* Product departmentation is also used in nonmanufacturing companies.

CHAPTER 9

Line/Staff Authority, Empowerment, and Decentralization

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Understand the nature of authority, power, and empowerment
2. Distinguish between line, staff, and functional authority
3. Discuss the nature of decentralization, centralization, and delegation of authority
4. Recognize the importance ofobtaining balance in the centralization and decentralization of authority

Now that the patterns of departmentation have been discussed, it is time to consider another essential question: What kind of authority is found in an organization structure? The question has to do with the nature of authority relationships—the problem of line and staff. This chapter will also deal with the question of how much authority should be delegated. The answer concerns the decentralization of authority. Without authority—the power to exercise discretion in making decisions—properly placed in managers, departments cannot become smoothly working units harmonized for the accomplishment of enterprise objectives. Authority relationships, whether vertical or horizontal, are the factors that make organization possible, facilitate departmental activities, and bring coordination to an enterprise.

AUTHORITY AND POWER

Before concentrating on the authority in organization, it will be useful to distinguish between authority and power. **Power**, a much broader concept than authority, is the ability of individuals or groups to induce or influence the beliefs or actions of other persons or groups.[1] **Authority** in organization is the right in a position (and, through it, the right of the person occupying the position) to exercise discretion in making decisions affecting others. It is of course one type of power, but power in an organizational setting.

Power The ability of individuals or groups to induce or influence the beliefs or actions of other persons or groups.

Authority The right in a position to exercise discretion in making decisions affecting others.

Although there are many different **bases of power**, the power of primary concern in this book is *legitimate power.*[2] It normally arises from position and derives from our cultural system of rights, obligations, and duties whereby a “position” is accepted by people as being “legitimate.” In a privately owned business, authority of position arises primarily from the social institution (a “bundle of rights”) of private property. In government, this authority arises basically from the institution of the representative government. A traffic officer who gives you a traffic ticket has the power to do so because we have a system of representative government in which we have elected legislators to make laws and provide for their enforcement.

Power may also come from the *expertness* of a person or a group. This is the power of knowledge. Physicians, lawyers, and university professors may have considerable influence on others because they are respected for their specialized knowledge. Power may further exist as *referent power*, that is, influence that people or groups may exercise because people believe in them and their ideas. Thus, Martin Luther King had very little legitimate power, but by the force of his personality, his ideas, and his ability to preach was able to strongly influence the behavior of many people. Likewise, a movie star or a military hero might possess considerable referent power.

In addition, power arises from the ability of some people to grant rewards. Purchasing agents, with little position power, might be able to exercise considerable influence through their ability to expedite or delay a much-needed spare part. Likewise, university professors have considerable *reward power:* they can grant or withhold high grades. *Coercive power* is still another type. Closely related to reward power and normally arising from legitimate power, it is the power to punish, whether by firing a subordinate or by withholding a merit pay increase.

While organizational authority is the power to exercise discretion in decision-making, it almost invariably arises from the power of position or legitimate power. When people speak of authority in managerial settings, they are usually referring to the power of position. At the same time, other factors such as personality and style of dealing with people are also involved in leadership.

EMPOWERMENT

In recent years, it has become fashionable to advocate a variety of empowerment approaches. **Empowerment** means that employees, managers, or teams at all levels in the organization are given the power to make decisions without asking their superiors for permission. The notion underlying empowerment is that those closest to the task are best able to make the decision, provided that they have the required competencies. Actually, the notion of empowerment is historically based on suggestion schemes, job enrichment, and worker participation.[3] Moreover, concepts of delegation (discussed later in this chapter) are also closely related to empowerment.

Empowerment Employees at all levels in the organization are given the power to make decisions without asking their superiors for permission.

Both delegation and empowerment are a matter of degree.[4] They also require that employees and teams accept responsibility for their actions and tasks. Conceptually, this can be illustrated as:

- Power should be equal to responsibility (P = R).
- If power is greater than responsibility (P > R), then this could result in autocratic behavior of the superior who is not held accountable for his or her actions.
- If responsibility is greater than power (R > P), then this could result in frustration because the person has not the necessary power to carry out the task for which he or she is responsible.

The increasing interest in empowerment is due in part to the rise in global competitiveness, the need to respond quickly to the demands and expectations of customers, and a better educated workforce that demands greater autonomy. Empowerment of subordinates means that superiors have to share their authority and power with their subordinates. Thus, an autocratic leadership style, when used as the only way to manage, is often inappropriate for the 21st-century organization. Most employees want to be involved and want to participate in decisions; this participation creates a sense of belonging and achievement and raises self-esteem.

Effective management requires that empowerment be sincere, based on mutual trust, accompanied by relevant information for the employees to carry out their tasks, and given to competent people.[5] Moreover, employees should be rewarded for exercising their decision authority.

Leadership Perspective

Empowerment at the Ritz-Carlton Hotel under the Leadership of Horst Schulze[6]

Customers are important, and so are employees. At the Ritz-Carlton Hotel, not only customers but also employees are treated with dignity and respect, as illustrated by the company's slogan

"Ladies and gentlemen serving ladies and gentlemen." The president, Horst Schulze, empowers employees by authorizing the front desk staff to spend up to $2,000 to serve customers and to ensure the satisfaction of their guests. Sales managers' authority is even higher: $5,000. Employees are encouraged to propose recommendations for quality improvement. The aim is to obtain twice as many suggestions from employees as the number of complaints from customers. Treating both employees and customers with respect has helped earn Ritz-Carlton the prestigious Malcolm Baldrige National Quality Award.

www.ritzcarlton.com

LINE/STAFF CONCEPTS AND FUNCTIONAL AUTHORITY

Line authority gives a superior a line of authority over a subordinate. It exists in all organizations as an uninterrupted scale or series of steps. Hence, the **scalar principle** in organization: the clearer the line of authority from the ultimate management position in an enterprise to every subordinate position, the clearer will be the responsibility for decision-making and the more effective will be organizational communication. In many large enterprises, the steps are long and complicated; but even in the smallest, the very fact of organization introduces the scalar principle.

Scalar principle The clearer the line of authority, the clearer will be the responsibility for decision-making and the more effective will be organizational communication.

It, therefore, becomes apparent from the scalar principle that **line authority** is the relationship in which a superior exercises direct supervision over a subordinate—an authority relationship in a direct line or steps.

Line authority The relationship in which a superior exercises direct supervision over a subordinate.

The nature of **staff relationship** is advisory. The function of people in a pure staff capacity is to investigate, research, and give advice to line managers.

Staff relationship is advisory.

Leadership Perspective

Line or Staff? What Is Your Career Goal?

The goal of many MBA graduates has often been to work in staff positions, using their analytical skills to advise line managers. In the 1980s, partly owing to the slow economy and competitive pressure, the situation was changing as many large companies reduced their staff strength. For example, the task of strategy formulation was carried out more frequently by line managers, who also had to implement the strategy rather than by strategic planners in headquarters. Consequently, people who used to plan, advise, and analyze business situations moved into line positions in which they were required to set priorities, make decisions, and motivate people to contribute to the aims of the enterprise.

While some staff personnel made an effective transition into line positions, others failed. One of the problems these "newcomers" encountered was the resentment of the "old-time" managers, who saw the positions they had aspired to taken by former staff. Clearly, line work is different from staff tasks. Having real authority for executing decisions can be exciting, but not everyone can make the transition. Thus, aspiring managers should carefully analyze their strengths, weaknesses, and motivations before choosing their career paths.

Today, many new graduates take more of an entrepreneurial career—typically oriented toward line authority—making sure the company survives and succeeds.

Functional authority is the right delegated to an individual or a department to control specified processes, practices, policies, or other matters relating to activities undertaken by persons in other departments. One can better understand functional authority by thinking of it as a small slice of the authority of a line superior. If the principle of unity of command were followed without exception, authority over these activities would be exercised only by the relevant line superiors. But numerous reasons, including a lack of specialized knowledge, a lack of ability to supervise specified processes, and the danger of diverse interpretations of policies, explain why these managers are occasionally not allowed to exercise this authority. In such cases, line managers are deprived of some authority, which is delegated by their common superior to a staff specialist or to a manager in another department. For example, a company controller is ordinarily given functional authority to prescribe the system of accounting throughout the company, but this specialized authority is really a delegation from the chief executive.

Functional authority The right delegated to an individual or a department to control specified processes, practices, policies, or other matters relating to activities undertaken by persons in other departments.

DECENTRALIZATION OF AUTHORITY

The previous section focused on the kinds of authority relationships such as line, staff, and functional authority. This section emphasizes the dispersion of authority in the organization.

The Nature of Decentralization

Organizational authority is merely the discretion conferred on people to use their judgment to make decisions and issue instructions.

Decentralization is the tendency to disperse decision-making authority in an organized structure. It is a fundamental aspect of delegation, to the extent that authority that is delegated is decentralized. How much should authority be concentrated in or dispersed throughout the organization? There could be absolute centralization of authority in one person, but that implies no subordinate managers and therefore no structured organization. Some decentralization exists in all organizations. On the other hand, there cannot be absolute decentralization; if managers delegated all their authority, their status as managers would cease, their position would be eliminated, and there would, again, be no organization. Centralization and decentralization are tendencies, as indicated in Figure 9-1.

Decentralization The tendency to disperse decisionmaking authority in an organized structure.

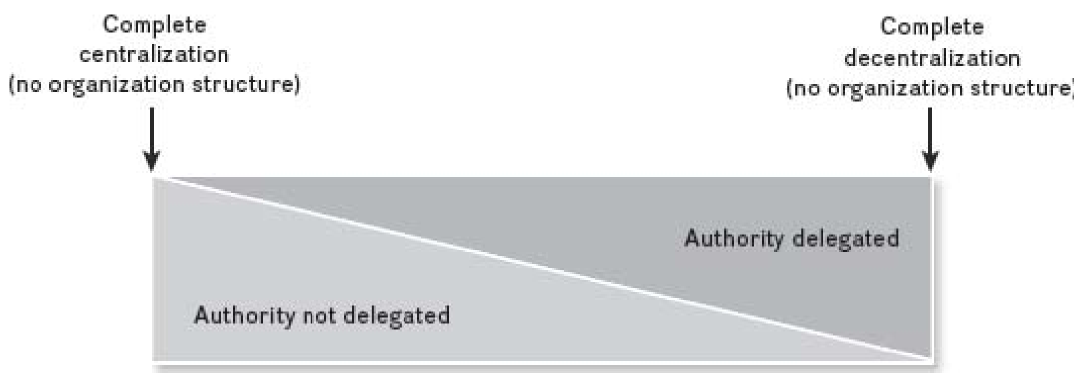

FIGURE 9-1 Centralization and decentralization as tendencies

Entrepreneurial Perspective

Managing Entrepreneurial Managers

Entrepreneurial managers in corporate settings need freedom to achieve great things for their organizations. A decentralized structure is one way to allow for this freedom and optimum performance of the entrepreneurial manager. In order to innovate, some risks need to be taken and some failures tolerated. Corporate leaders must determine the innovation objectives, their entrepreneurial managers' abilities, and the best structure to allow innovation to succeed. Trust and respect need to be nurtured and guidelines for behavior should be delineated. Then, freedom, time, and resources should be allocated to allow entrepreneurial managers to succeed. The best way to stifle innovation in an organization is to treat all managers the same and force rigid structures across all departments. More organizations are adopting innovation-creating structures, particularly in high-technology industries where shortening product life cycles require firms to innovate or fail.

Different Kinds of Centralization

The term *centralization* has several meanings:

- *Centralization of performance* pertains to geographic concentration; it characterizes, for example, a company operating in a single location.
- *Departmental centralization* refers to concentration of specialized activities, generally in one department. For example, maintenance for a whole plant may be carried out by a single department.
- *Centralization of management* is the tendency to restrict delegation of decision-making. A high degree of authority is held by managers at or near the top of the organizational hierarchy.

Decentralization as a Philosophy and Policy

A Philosophy is a set of principles that guides practical actions. Decentralization implies more than delegation. It reflects a philosophy of organization and management. It requires careful selection of which decisions to push down the organization structure and which to hold near the top, specific policy making to guide the decision-making, proper selection and training of people, and adequate controls. A policy of decentralization affects all areas of management and can be looked upon as an essential element of a managerial system. In fact, without it managers could not use their discretion to handle the ever-changing situations they face. Decentralization requires trust in the organization, and thus the values of the organization can impact the viability of a decentralized policy and structure.

DELEGATION OF AUTHORITY

Authority is delegated when a superior gives a subordinate discretion to make decisions. Clearly, superiors cannot delegate authority they do not have, whether they are board members, presidents, vice presidents, or supervisors.

The **process of delegation** involves (1) determining the results expected from a position, (2) assigning tasks to the position, (3) delegating authority for accomplishing these tasks, and (4) holding the person in that position responsible for the accomplishment of the tasks. In practice, it is impossible to split this process, since expecting a person to accomplish goals without giving him or her authority to achieve them is impractical, as is delegating authority without knowing the end results to which it will be applied. Moreover, since the superior’s responsibility cannot be delegated, a boss must hold subordinates responsible for completing their assignments.

THE ART OF DELEGATION

Most failures in effective delegation occur not because managers do not understand the nature and principles of delegation but because they are unable or unwilling to apply them. Delegation is, in a way, an elementary act of managing. Yet, studies almost invariably find that poor or inept delegation is one of the causes of managerial failures. Much of the reason lies in personal attitudes toward delegation.

Personal Attitudes toward Delegation

Although charting an organization and outlining managerial goals and duties will help in making delegation decisions and knowledge of the principles of delegation will furnish a basis for it, certain personal attitudes underlie real delegation.

Receptiveness

An underlying attribute of managers who will delegate authority is a willingness to give other people's ideas a chance. Decision-making always involves some discretion, and a subordinate's decision is not likely to be exactly the one a superior would have made. The manager who knows how to delegate must have a minimum of the "NIH (not invented here) factor" and must be able not only to welcome the ideas of others, but also to help others come up with ideas and to compliment them on their ingenuity.

Willingness to let go[7]

A manager who will effectively delegate authority must be willing to release the right to make decisions to subordinates. A major fault of some managers who move up the executive ladder—or of the pioneer who has built a large business from the small beginning of, say, a garage machine shop—is that they want to continue making decisions for the positions they have left. Corporate presidents and vice presidents who insist on confirming every purchase or approving the appointment of every laborer or secretary do not realize that doing so takes their time and attention away from far more important decisions.

If the size or complexity of the organization forces delegation of authority, managers should realize that there is a "law of comparative managerial advantage," somewhat like the law of comparative economic advantage that applies to nations. Well known to economists and logically sound, the law of comparative economic advantage states that a country's wealth will be enhanced if it exports what it produces most efficiently and imports what it produces least efficiently, even though it could produce the imported goods more cheaply than any other nation. Likewise, managers will enhance their contributions to the firm if they concentrate on tasks that contribute most to the firm's goals and assign to subordinates other tasks, even though they could accomplish them better themselves.

Willingness to allow mistakes by subordinates

Although no responsible manager would sit idly by and let a subordinate make a mistake that might endanger the company or the subordinate's position in the company, continual checking on the subordinate to ensure that no mistakes are ever made will make true delegation impossible. Since everyone makes mistakes, a subordinate must be allowed to make some and their cost must be considered an investment in personal development.

Serious or repeated mistakes can be largely avoided without nullifying delegation or hindering the development of a subordinate. Patient counseling, asking leading or discerning questions, and carefully explaining the objectives and policies are some of the methods available to the manager who would delegate well. None of these techniques involve discouraging subordinates with intimidating criticism or harping on their shortcomings.

Willingness to trust subordinates

Superiors have no alternative to trusting their subordinates, for delegation implies a trustful attitude between them. This trust is sometimes hard to come by. A superior may put off delegation with the thought that subordinates are not yet experienced enough; that they cannot handle people; that they have not yet developed judgment; or that they do not appreciate all the facts bearing on a situation. Sometimes, these considerations are true, but then a superior should either train subordinates or else select others who are prepared to assume the responsibility. Too often, however, bosses distrust their subordinates because they do not wish to let go, are threatened by subordinates' successes, do not delegate wisely, or do not know how to set up controls to ensure proper use of the authority.

Willingness to establish and use broad controls

Since superiors cannot delegate responsibility for performance, they should not delegate authority unless they are willing to find means of getting feedback, that is, of assuring themselves that the authority is being used to support enterprise or departmental goals and plans. Obviously, controls cannot be established and exercised unless goals, policies, and plans are used as basic standards for judging the activities of subordinates. More often than not, reluctance to delegate and to trust subordinates comes from the superior's inadequate planning and understandable fear of loss of control.

Overcoming Weak Delegation

The following practical guide will facilitate successful delegation:

- *Define assignments and delegate authority in light of results expected.* Or, to put it another way, grant sufficient authority to make possible the accomplishment of goal assignments.
- *Select the person in light of the job to be done.* Although the good organizer will approach delegation primarily from the standpoint of the task to be accomplished, in the final analysis staffing as a part of the total system of delegation cannot be ignored.
- *Maintain open lines of communication.* Since the superior does not delegate all authority or abdicate responsibility, and therefore managerial independence does not exist, decentralization should not lead to insulation. There should be free flow of information between superior and subordinate, furnishing the subordinate with the information needed to make decisions and to interpret properly the authority delegated. Delegation, then, does depend on situations.
- *Establish proper controls.* Because no manager can relinquish responsibility, delegation should be accompanied by techniques for ensuring that the authority is properly used. But if controls are to enhance delegation, they must be relatively broad and

designed to show deviations from plans rather than interfering with routine actions of subordinates.

- *Reward effective delegation and successful assumption of authority*. Managers should be ever-watchful for means of rewarding both effective delegation and effective assumption of authority. Although many of these rewards will be monetary, the granting of greater discretion and prestige—both in a given position and by promotion to a higher position—is often even more of an incentive.

RECENTRALIZATION OF AUTHORITY[8] AND BALANCE AS THE KEY TO DECENTRALIZATION

At times, an enterprise can be said to recentralize authority—to centralize authority that was once decentralized. **Recentralization** is normally not a complete reversal of decentralization, as the authority delegation is not wholly withdrawn by the managers who made it. The process is a centralization of authority over a certain type of activity or function, wherever in the organization it may be found. To avoid pitfalls, any program for decentralization of authority must take into consideration the advantages and limitations shown in Table 9-1.

Recentralization Centralization of authority that was once decentralized; normally not a complete reversal of decentralization, as the authority delegated is not wholly withdrawn.

TABLE 9-1 Advantages and limitations of decentralization

Advantages
1. Relieves top management of some burden of decision-making and forces upper-level managers to let go.
2. Encourages decision-making and assumption of authority and responsibility.
3. Gives managers more freedom and independence in decision-making.
4. Promotes establishment and use of broad controls that may increase

	motivation.
5.	Makes comparison of performance of different organizational units possible.
6.	Facilitates setting up of profit centers.
7.	Facilitates product diversification.
8.	Promotes development of general managers.
9.	Aids in adaptation to a fast-changing environment.
	Limitations
1.	Makes it more difficult to have a uniform policy.
2.	Increases complexity of coordination of decentralized organizational units.
3.	May result in loss of some control by upper-level managers.
4.	May be limited by inadequate control techniques.
5.	May be constrained by inadequate planning and control systems.
6.	Can be limited by the lack of qualified managers.
7.	Involves considerable expenses for training managers.
8.	May be limited by external forces (national labor unions, governmental controls, tax policies).
9.	May not be favored by economies of scale of some operations.

SUMMARY

There are a number of different bases of power. Power can be legitimate, expert, referent, reward, or coercive. Empowerment enables people to make decisions without asking their superiors for permission. Line authority is that relationship in which a superior exercises direct supervision over subordinates. The staff relationship, on the other hand, consists of giving advice and counsel. Functional authority is the right to control selected processes, practices, policies, or other matters in departments other than a person's own. It is a small slice of a line manager's authority and should be used sparingly.

Another important concept is decentralization, which is the tendency to disperse decision-making authority. Centralization, on the other hand, is the concentration of authority. It may refer to geographic concentration, departmental centralization, or the tendency to restrict delegation of decision-making. The process of delegation of authority includes determining the results to be achieved, assigning tasks, delegating authority for accomplishing the tasks, and holding people responsible for results.

Failures in effective delegation are often due to personal attitudes. Weak delegation can be overcome by considering the tasks and the goals, maintaining open communication, establishing proper controls, and motivating through appropriate rewards. Previously decentralized authority may be recentralized. Balance is the key to proper decentralization.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Power
- Authority
- Bases of power
- Empowerment
- Scalar principle
- Line
- Staff
- Functional authority
- Decentralization
- Three kinds of centralization
- Process of delegation
- Attitudes toward delegation
- Recentralization
- Advantages and limitations of decentralization

FOR DISCUSSION

1. What are the kinds of power exercised in your organization or school?
2. Take as examples a number of positions in any kind of enterprise (business, church, government, etc.). Classify each as line or staff.
3. How many cases of functional authority in organization have you seen? Analyzing a few, do you agree that they could have been avoided? If avoidance had been possible, would you have eliminated them? If they could not have been avoided or if you had not wanted to eliminate them, how would you remove most of the difficulties that might arise?
4. If you were asked to advise a young college graduate who has accepted a staff position as assistant to a factory manager, what suggestions would you make?
5. Why is poor delegation of authority often found to be the most important cause of managerial failure?
6. In many countries, companies often have grown from within and are family owned. In these companies, very little authority is decentralized. What do you think would explain this tendency? What effect does it have?
7. If you were a manager, would you decentralize authority? State several reasons for your answer. How would you make sure that you did not decentralize too much?
8. Should authority be pushed down in an organization as far as it will go? Why or why not?

EXERCISES/ACTION STEPS

1. Interview a line manager and a staff person at a local company. Ask them what they like and dislike about their jobs. Reflect on the interviews and ask yourself whether a line or a staff position is the major aim of your career plan.
2. Interview two line managers about their views on delegation. Do they think that their superiors delegate sufficient authority to them? Also inquire how they feel about delegating authority to their subordinates.
3. Be sure to include a professional photograph in your LinkedIn Profile.

INTERNET RESEARCH

1. Search the Internet for the term “employee empowerment” and read what others think about the empowerment theory. Also, find out what “disempowerment” and “dysempowerment” are.
2. Search the Internet using the key words “scalar principle.” Find out the details of the principle.

BUILD YOUR CASE STUDY

Identify a case of a local firm that you find interesting and describe its structure. Does its structure match its strategy? Does it allow it to compete effectively? Propose an alternative structure and explain why it may be better suited for this company.

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6. Dean and Evans, *Total Quality*, chap. 8.
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CHAPTER 10

Effective Organizing and Organization Culture

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Avoid mistakes in organizing by planning
2. Show how organizing can be improved by maintaining flexibility and by making staff more effective
3. Avoid conflict by clarifying the organization structure and ensuring an understanding of organizing
4. Promote and develop an appropriate organization culture

Organizing involves developing an intentional structure of roles for effective performance. It requires a network of decision and communication centers for coordinating efforts toward group and enterprise goals. To work, an organization structure must be understood and principles must be put into practice. As emphasized earlier, in organizing, as elsewhere in managing, there is no one best way. What works will always depend on the specific situation.

In organizing, there is no one best way; it depends on the specific situation.

AVOIDING MISTAKES IN ORGANIZING BY PLANNING

As with the other functions of managing, establishment of objectives and orderly planning are necessary for good organization. As Lyndall Urwick said in his classic book *The Elements of Administration*, "Lack of design [in organization] is illogical, cruel, wasteful, and inefficient."[1]

Establishment of objectives and orderly planning are necessary for good organization.

Planning for the Ideal

The search for an ideal organization to reflect enterprise goals under given circumstances is the impetus to planning. The search entails charting the main lines of organization, considering the organizational philosophy of the enterprise managers (e.g., whether authority should be centralized as much as possible or whether enterprise operations should be divided into semi-independent product or territorial divisions), and sketching out consequent authority relationships. The ultimate form established, like all other plans, seldom remains unchanged, and continual remolding of the ideal plan is normally necessary. Nevertheless, an ideal organization plan constitutes a standard, and by comparing the present structure with it, enterprise leaders know what changes should be made when possible.

An organizer must always be careful not to be blinded by popular notions in organizing because what may work in one enterprise may not work in another. Principles of organizing have general application, but the background of each enterprise's operation and needs must be considered in applying these principles. Organization structure needs to be tailor-made.

Modification for the Human Factor

If the available personnel do not fit into the ideal structure and cannot or should not be pushed aside, the only choice is to modify the structure to fit individual capabilities, attitudes, or limitations. Although this modification may seem like organizing around people, in this case one is first organizing around the goals to be met and activities to be undertaken, and only then making modifications for the human factor. Thus, planning will reduce compromising the necessity for principal whenever changes occur in personnel.

Advantages of Organization Planning

Planning the organization structure helps determine future personnel needs and required training programs. Unless it knows what managerial personnel will be needed and what experience should be demanded, an enterprise cannot intelligently recruit people and train them.

Planning the organization structure helps determine future personnel needs and required training programs.

Furthermore, organization planning can disclose weaknesses. Duplication of effort, unclear lines of authority, overlong lines of communication, excessive red tape, and obsolete practices show up best when desirable and actual organization structures are compared.

AVOIDING ORGANIZATIONAL INFLEXIBILITY

One basic advantage of organization planning is the avoidance of organizational inflexibility. Many enterprises, especially those that have been in operation for many years, become too rigid to meet the first test of effective organization structure—the ability to adapt to a changing environment and meet new contingencies. This resistance to change can cause considerable loss of efficiency in organizations.

Some older companies provide ample evidence of inflexibility: an organization pattern that is no longer suited to the times, a district or regional organization that could be either abolished or enlarged because of improved communication, or a structure that is too highly centralized for an enlarged enterprise requiring decentralization.

Avoiding Inflexibility through Reorganization

Although reorganization is intended to respond to changes in the enterprise environment, there may be other compelling reasons for reorganization. Those related to the business environment include changes in operation caused by the acquisition or sale of major properties, changes in product line or marketing methods, business cycles, competitive influences, new production techniques, labor union policy, government regulatory and fiscal policies, and the current state of knowledge about organizing. New techniques and principles may become applicable, such as developing managers by allowing them to manage decentralized semi-independent units of a company, or new methods may come into use, such as gaining adequate financial control with a high degree of decentralization.

Moreover, a new chief executive officer (CEO) and new vice presidents and department heads are likely to have some definite organizational ideas of their own. Shifts may be due merely to the desire of new managers to make changes based on ideas formulated through their previous experience or to the fact that their methods of managing and their personalities require a changed organization structure.

Furthermore, reorganization may be caused by demonstrated deficiencies in an existing structure. Some of these arise from organizational weaknesses: excessive spans of management, an excessive number of committees, lack of uniform policy, slow decision-making, failure to accomplish objectives, inability to meet schedules, excessive costs, or a breakdown of financial control. Other deficiencies may stem from inadequacies of managers. Failure due to lack of knowledge or skill of a manager who for some reason cannot be replaced may be avoided by organizing in a way that moves much of the authority for decision-making to another position.

Personality clashes between managers also may be solved by reorganization. Staff-line conflict may develop to such an extent that it can be resolved only by reorganization.

The Need for Readjustment and Change

In addition to pressing reasons for reorganization, there is a certain need for moderate and continuing readjustment merely to keep the structure from becoming stagnant. “Empire building” (i.e., building up a large organization so that the manager appears to be more important) is not so attractive when those involved know that their positions are subject to change. As a company president told his subordinates, “Don’t bother to build any empires because I can assure you that you won’t be in the same position three years from now.” Some managers, realizing that an organization structure must be a living thing, make structural changes merely to accustom subordinates to change.

Innovation Perspective

Trouble at Apple!-The Early Days[2]

Apple is one of the most innovative companies. But this was not always the case. Steve Jobs and Steve Wozniak invented the personal computer in a garage in 1976. Jobs at age 21 had to sell his Volkswagen to finance his idea. The assembly of the first personal computer was followed by financing help from friends. In 1978, the first computer was launched. At that time, IBM was the dominant company in the big computer market. But it was Steve Jobs, the entrepreneur, not IBM, who conceived the first personal computer. IBM in 1981 began to realize the potential of the personal computer and entered the market. Jobs countered with the Macintosh, which was noted its creative style and design. Jobs dropped out of college, but the course he took in calligraphy introduced him to serif and sans serif typography, influenced the innovative typefaces, and proportionally spaced fonts in the Mac computer.

As the company grew, Jobs hired John Sculley, who was successful in creating the “Pepsi Challenge” and other advertising campaigns at Pepsi. Soon, the company visions by Sculley and

Jobs departed. Sculley's strategy aimed at competing directly with IBM through an ordinary computer while Jobs envisioned a differentiation strategy for Apple.* Jobs, the creator of Apple, was fired by Sculley. But Sculley's strategy did not work, resulting in profitability loss. In 1993, Sculley was replaced as CEO by Michael Spindler, who continued focusing on cost-cutting rather than innovative differentiation. But the losses continued. Then in 1996. Spindler was replaced by Gilbert Amelio. Apple continued being in financial trouble and the board of directors rehired Steve Jobs as an interim CEO.

Jobs' return to Apple resulted in dramatic restructuring and changes in strategy direction. Several products were discontinued, manufacturing was outsourced to Taiwan, products were sold directly to customers online, the open-source operating system was introduced, Intel processors were used in the products, and Apple retail stores were opened. Although this was a risky strategy, it made the company profitable again. Indeed, the company change is illustrated by the 1997 advertising slogan "Think Different." Undeniably, the restructured company under the leadership of Steve Jobs moved in a different direction, resulting in innovations such as the introduction of the iPod, the iPhone, and the iPad, all discussed in different parts of the book.

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* See Chapter 5 for a discussion of Porter's differentiation strategy.

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MAKING STAFF WORK EFFECTIVE

The line-staff problem is not only one of the most difficult that organizations face, but also the source of an extraordinarily large amount of inefficiency. Solving this problem requires great managerial skills, careful attention to principles, and patient teaching of personnel.

Understanding Authority Relationships

Managers must understand the nature of authority relationships if they want to solve the problems between line and staff. As long as managers regard line and staff as groups of people or groupings of activities, confusion will result. Line and staff are authority relationships, and many jobs have elements of both. The line relationship involves making decisions and acting on them. The staff relationship, on the other hand, implies the right to assist and counsel. In short, the line may "tell," but the staff must "sell" (its recommendations).

Making Line Listen to Staff

Line managers should be encouraged or required to consult with staff. Enterprises would do well to adopt the practice of compulsory staff assistance where line must listen to staff. At General Motors, for example, product division managers would consult with the headquarters staff divisions before proposing a major program or policy to the top executive or the finance committee. They may not be required to do so, but they are likely to find that this practice results in smoother sailing for their proposals; and if they can present a united front with the staff division concerned, there will unquestionably be a better chance for the adoption of their proposals.

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Keeping Staff Informed

Common criticisms of staff are that specialists operate in a vacuum, fail to appreciate the complexity of the line manager's job, and overlook important facts in making recommendations. To some extent, these criticisms are warranted because specialists cannot be expected to know all the fine points of a manager's job. Specialists should take care that their recommendations deal only with matters within their competence, and operating managers should not lean too heavily on a recommendation if it deals only with part of a problem.

Many criticisms arise because staff is not kept informed on matters within their field. Even the best staff cannot advise properly in such situations. If line managers fail to inform their staff of decisions affecting their work or if they do not pave the way-through announcements and requests for cooperation-for staff to obtain the requisite information on specific problems, the staff cannot function as intended. In relieving their superiors of the necessity for gathering and analyzing such information, staff largely justifies their existence.

Requiring Complete Staff Work

Staff often overlooks the fact that, in order to be most helpful, their recommendations should be complete enough to enable a line manager to make a simple positive or negative answer. Staff should be problem solvers and not problem creators. They create problems for managers when their advice is indecisive or vague, when their conclusions are wrong, when they have not taken into account all the facts or have not consulted the persons seriously affected by a proposed solution, or when they do not point out to superiors the pitfalls as well as the advantages of a recommended course of action.

Complete staff work implies presentation of a clear recommendation based on full consideration of a problem, clearance with persons who will be greatly affected, suggestions about avoiding any difficulties involved, and often, preparation of the paperwork-letters, directives, job descriptions, and specifications-so that a manager can accept or reject the proposal without further study, long conferences, or unnecessary work. Should a recommendation be accepted, thorough staff work provide line managers with the machinery to put it into effect. People in staff positions who have acquired these capabilities can find themselves highly valued and appreciated.

Making Staff Work as a Way of Organizational Life

An understanding of staff authority laid the foundation for an organizational way of life. Wherever staff is involved, their responsibility is to develop and maintain a climate of favorable personal relations. Essentially, the task of staff is to make the responsible line managers “look good” and to help them do a better job. A staff person should not attempt to assume credit for an idea. Not only is this a sure way of alienating line teammates who do not like being shown up by one of the staff, but operating managers who accept ideas actually bear responsibility for the implementation of the proposals.

Companies also employ the assistance of professional firms such as consultants to provide advice to line managers. The relationships between line and outside staff are similar to those discussed earlier. However, outside assistance is often only for a limited time, and it is even more difficult to hold outside staff accountable, especially when they are not involved in the implementation of their recommendations.

AVOIDING CONFLICT BY CLARIFICATION

A major reason for conflict in organizations is that people do not understand their assignments and those of their coworkers. No matter how well conceived an organization structure may be, people must understand it to make it work. Understanding is aided materially by the proper use of organization charts, accurate job descriptions, spelling out of authority and informational relationships, and introduction of specific goals for specific positions.

Organization Charts

Every organization structure, even a poor one, can be charted, for a chart merely indicates how departments are tied together along the principal lines of authority. It is, therefore, somewhat surprising to find top managers occasionally taking pride in the fact that they do not have an organization chart or, if they do have one, feeling that the chart should be kept a secret.

An **organization chart** indicates how departments are tied together along the principal lines of authority.

Advantages of organization charts

A prominent manufacturer once said that, although he could see some use for an organization chart for his factory, he had refused to chart the organization above the level of factory superintendent. His argument was that charts tend to make people overly conscious of being superiors or inferiors, destroy team feeling, and give persons occupying boxes on the chart too great a feeling of "ownership." Another top executive once said that an organization can be changed more easily if it is left uncharted and that the absence of a chart also encourages a competitive drive for higher executive positions by the uncharted middle-management group.

These reasons for not charting organization structures are clearly unsound. Subordinate-superior relationships exist not because of charting, but rather because of essential reporting relationships. As for a chart's creating a too comfortable feeling and causing a lack of drive in those who have "arrived," these are matters of top leadership-of reorganizing whenever the enterprise environment demands, of developing a tradition of change, and of making subordinate managers continue to meet adequate and well-understood standards of performance. Managers who believe that team spirit can be produced without clearly spelling out relationships are fooling themselves and preparing the way for politics, intrigue, frustration, buck-passing, lack of coordination, duplicated effort, vague policy, uncertain decision-making, and other evidence of organizational inefficiency.

Since a chart maps lines of decision-making authority, sometimes merely charting an organization can show inconsistencies and complexities and thus lead to their correction. A chart also reveals to managers and new personnel how they tie into the entire structure.

Entrepreneurial Perspective

LinkedIn's Organizational Chart for its IPO S-I Filing[3]

LinkedIn is the world's largest professional network on the Internet today. It is now a public company and in the process of becoming a public company (like all other companies that wish to list on a U.S. public exchange) filed an S-1. The S-1 is a legal document that details many financial, organizational, product, and legal aspects of a company. It provides a glimpse of the proposed organizational structure of LinkedIn. In this case, it denotes the CEO, Jeffrey Weiner, and four senior vice presidents (CFO, SVP of global sales, SVP of operations and planning, SVP of products and user experience). The designation of the top managerial jobs, in this case focusing on global sales, operations, and products, gives a sense of the priorities and direction of the firm. Students of entrepreneurship can develop insight into new high growth firms as they file to go public through an examination of the S -1 and other required legal documents. Since its public offering, LinkedIn has performed well as a public firm, especially when compared with some other social media firms, boasting a market capitalization of nearly $30 billion before being acquired by Microsoft in 2017.

Limitations of organization charts

Organization charts are subject to important limitations. A chart shows only formal authority relationships and omits the many significant informal and informational relationships. Figure 10-1 shows many, but not nearly all, of the informal and informational relationships found in a typical organized enterprise. It shows also the major line or formal relationships. It does not show how much authority exists at any point in the structure. While it would be interesting to chart an organization with lines of different widths to denote formal authority of varying degrees, authority is not subject to such measurement. And if the multiple lines of informal relationships and of communication were drawn, they would so complicate a chart that it could not be understood.

An **organization chart** shows formal authority relationships and omits the many significant informal and informational relationships.

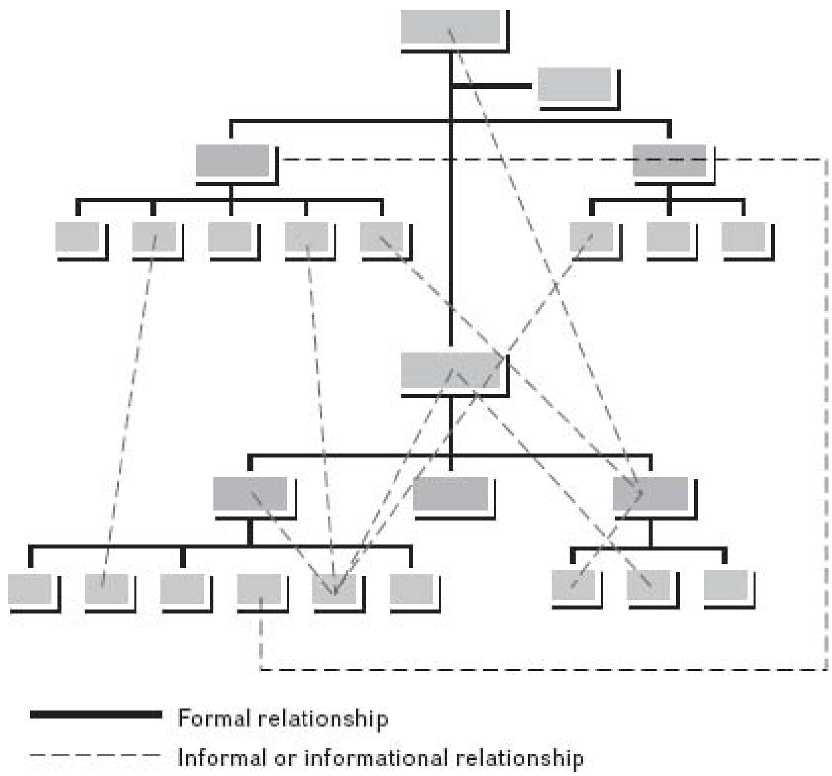

FIGURE 10-1 Formal and informal or informational organization

Many charts show structures as they are supposed to be or used to be rather than as they really are. Managers hesitate or neglect to redraft charts, forgetting that organization structures are dynamic and that charts should not be allowed to become obsolete.

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Another difficulty with organization charts is that individuals may confuse authority relationships with status. The staff officer reporting to the corporation's president may be shown at the top of the organization chart, while a regional line officer may be shown one or two levels lower. Although good charting attempts to make levels on the chart conform to levels of enterprise importance, it cannot always do so. This problem can be handled by clearly spelling out authority relationships and by using that best indicator of status—salary and bonus levels. No one is likely, for example, to hear that the general manager of Chevrolet in General Motors feels a sense of inferiority because his position on the chart is below that of the company secretary.

International Perspective

Pandora

Pandora is an Internet radio firm whose mission is "to play only music you'll love."[4] This mission has helped create a certain organizational culture that focuses on developing an extensive knowledge of music and delivering music tailored to each of its listeners. Listeners of Pandora can create multiple unique radio stations that are refined with listener feedback to every song. The culture that Pandora has created is supported by its corporate governance. For example, the firm's founder, Tim Westergren, is Pandora's chief strategy officer and thus can continue to provide guidance and inspiration to top management and the firm's employees. Additionally, the company's code of conduct and other corporate documents are available on the firm's website for all to review.[5] A company's culture and organizational structure can be a powerful influence on performance, and so they must be carefully considered and nourished as the firm grows.

Position Descriptions

Every managerial position should be defined. A good position description informs everyone of the incumbent's responsibilities. A modern position description is not a detailed list of all the activities an individual is expected to undertake and it certainly does not specify how to undertake them. Rather, it states the basic function of the position, the major end result areas for which the manager is responsible, and the reporting relationships involved. The description also clarifies the position's authority and it states the set of verifiable objectives for the end result areas.

A good **position description** informs everyone of the incumbent's responsibilities.

Position descriptions have many benefits. As jobs are analyzed, duties and responsibilities are brought into focus and areas of overlapping or neglected duties come to light. Forcing people to consider what should be done and who should do it is more than worth the effort. Further benefits of job descriptions include the guidance they provide in training new managers, in drawing up candidate requirements, and in setting salary levels. Finally, as a means of control over organization, the position description furnishes a standard against which to judge whether a position is necessary and, if so, what its organizational level and exact location in the structure should be.

ENSURING UNDERSTANDING OF ORGANIZING

All the members of an enterprise must understand the structure of their organization in order for that structure to work. This requires teaching. Also, since formal organization is supplemented by informal organization, members of an enterprise must understand the general workings of informal as well as formal organization.

Entrepreneurial Focus Legal Forms of Organization and Intellectual Property of New Ventures

Organizing in an entrepreneurial context often refers to the initial steps that the founders of a new venture take to legally establish the organization. This organizational step is essential as the new venture does not officially exist until it has some governmental recognition of its status. This means that the founders and managers of the organization must take certain legal steps to establish the venture. New businesses may take one of several legal forms. These legal forms normally fall into one of three categories: a sole proprietorship, a partnership, or a corporation.[6]

A sole proprietorship is a recognized legal form of an organization; however, the organization is not distinguished from the owner of the business. For example, John Smith may establish "ABC" company as a sole proprietorship for the purpose of doing business, but the law recognizes that ABC company is an extension of John Smith and he is, therefore, personally responsible for all its affairs (expenses and liabilities). The sole proprietorship is a common legal form of business in the United States because it is easy and inexpensive to form. However, it does not provide a mechanism for raising significant amounts of capital nor does it provide for limits of business liability for the entrepreneur/founder.

A partnership is another commonly formed business entity where two or more founders own the business enterprise and share the profits and liability of the organization. Organizing a business as a partnership has benefits in that the partners share the costs and bring unique talents and resources to the business. However, all partners are equally responsible for the liabilities of the enterprise. A partnership agreement should be written to clearly delineate the responsibilities of all partners.

A corporation is ideal for organizations that need to raise significant amounts of equity capital. As a corporation is a separate legal entity from the owners, portions (stock) of the corporation can be sold for cash to finance the operations and investment of the company. Further, as the corporation is a separate legal entity, the owners are not liable for the debts of the corporation beyond their own equity ownership.[7]

Teaching the Nature of Organizing

Many soundly conceived organization plans fail because organization members do not understand them. A well-written organization manual — containing a statement of organizational philosophy, programs, charts, and an outline of job descriptions—goes far toward making organizing understandable. If an organization structure is put into written words and charts, it has a better chance of being clear than if it is not. However, even the best-written words and charts do not always clearly convey the same meaning to every reader, so effective managers cannot stop with written clarification. They must teach those in their operation the meaning of the organization structure, their position in it, and the relationships involved. Managers may do this by individual coaching, through staff or special meetings, or by simply watching how the structure works.

Recognizing the Importance of Informal Organization and the Grapevine

Another way of making the formal organization work effectively is to recognize and take full advantage of informal organization. The nature of informal organization and its distinction from formal organization were discussed in Chapter 7. Many informal organizations arise from the formal organization in which they operate. They include interrelationships that are not usually charted such as the unwritten rules of organizational conduct, the way to "learn the ropes," the people in an enterprise who have power not implied by or coming from an organizational position, and gossip. One of the best-known examples of informal organization, one which seems to exist in every department and organization, is the "grapevine."

The grapevine

Informal organization tends to exist when members of a formal organization (perhaps a company department) know one another well enough to pass on information—sometimes only gossip—that is in some way connected with the enterprise. In a typical enterprise—whose members spend many hours a day deriving material security and status as well as social satisfaction from the grapevine—the desire for information concerning the organization and its people is strong enough for such information to be rapidly transmitted between persons who know and trust one another.

The grapevine, of course, thrives on information not openly available to the entire group, whether because that information is regarded as confidential, or because formal lines of communication are inadequate to spread it, or because it is of the kind (much like gossip) that would never be formally disclosed. Even managers who conscientiously inform employees through company bulletins or newspapers never so completely or quickly disclose all information of interest as to make the grapevine purposeless.

Since all forms of informal organization serve essential human communication needs, the grapevine is inevitable and valuable. Indeed, an intelligent top manager would probably be wise to feed it accurate information, since it is very effective for quick communication. There is much to be said for a manager getting a place-personally or through a trusted staff member or secretary-on the company grapevine.

Benefits of the informal organization

Informal organization brings a kind of cohesiveness to formal organization. It imparts to members of a formal organization a sense of belonging, status, self-respect, and satisfaction. Many managers, understanding this fact, consciously use informal organizations as channels of communication and molders of employee morale.

PROMOTING AN APPROPRIATE ORGANIZATION CULTURE[8]

The effectiveness of an organization is also influenced by the organization culture, which affects the way the managerial functions of planning, organizing, staffing, leading, and controlling are carried out. Illustrations of organization culture are given in Table 10-1. Given the choice, most people would probably prefer to work in an organization with an environment such as B, in which one can participate in the decision-making process, one is evaluated on the basis of performance criteria rather than on the basis of friendship, one has open communication channels in all directions, and one has the opportunity to exercise a great deal of self-control. In their search for excellent companies, Thomas Peters and Robert Waterman, the authors of a best-selling book on management, found that the dominance of a coherent culture characterized these organizations.[9]

The effectiveness of an organization is influenced by the organization culture.

TABLE 10-1 Illustrations of organization culture and management practice

Environment A	Environment B
Planning	
Goals are set in an autocratic manner. Decision-making is centralized.	Goals are set with a great deal of participation. Decision-making is decentralized.
Organizing	
Authority is centralized. Authority is narrowly defined.	Authority is decentralized. Authority is broadly defined.
Staffing	
People are selected on the basis of friendship. Training is in a narrowly defined specialty.	People are selected on the basis of performance criteria. Training is in many functional areas.
Leading	
Managers exercise directive leadership. Communication flow is primarily top-down.	Managers practice participative leadership. Communication flow is top-down, bottom-up, horizontal, and diagonal.
Controlling	
Superiors exercise strict control.	Individuals exercise a great deal of

Focus is on financial criteria.	self-control. Focus is on multiple criteria.

However, the recognition of the importance of corporate culture is not new at all (although some management gurus want you to believe it is). Over 2,000 years ago, in 431 B.C., Pericles in ancient Greece eloquently urged the Athenians, who were at war with the Spartans, to adhere to values such as those inherent in democracy: informality in communication, the importance of individual dignity, and promotion based on performance. Pericles realized that the underlying values might mean victory or defeat. These values are not so different from those espoused by many U.S. companies.

Defining Organization Culture

As it relates to organizations, **culture** is the general pattern of behavior, shared beliefs, and values that members have in common.[10] Culture can be inferred from what people say, do, and think within an organizational setting. It involves the learning and transmitting of knowledge, beliefs, and patterns of behavior over a period of time, which means that an organization culture is fairly stable and does not change fast. It often sets the tone for the company and establishes implied rules for the way people should behave. Many company slogans give a general idea of what a particular company stands for. Here are some examples: For General Electric, it is “Progress is our most important product.” AT&T is proud of its “universal service.” Du Pont makes “better things for better living through chemistry.” Delta Airlines describes its internal climate as “the Delta family feeling.” KLM Royal Dutch Airlines wants to be known as “the reliable airline.” Its president, Jan F. A. de Soet, stated that KLM is not a flamboyant airline; instead, the organization culture reflects the Dutch dislike of ostentation.

Organization culture The general pattern of behavior, shared beliefs, and values that organization members have in common.

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www.att.com
www.dupont.com
www.delta.com
www.klm.com
www.ibm.com
www.sears.com
www.caterpillar.com

Similarly, IBM wants to be known for its service, Sears for quality and price, Caterpillar for its 24-hour parts service, and so on. Indeed, the orientation of these companies, often expressed in slogans, contributed to the successful conduct of their businesses.

ASEA Brown Boveri (a giant electrical company), which comprises a Swedish firm and a Swiss firm, is guided by a culture illustrated by the phrase “think globally, act locally.”[11] The organization culture of the highly decentralized company with more than 200,000 employees around the world is integrated with the culture of the country in which the division operates. On the other hand, its managers act globally with respect to sourcing. For example, depending on the prevailing financial market conditions, goods and services are acquired in the country where it is most favorable to do so.

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The Influence of the Leader on Organization Culture

Managers, especially top managers, create the climate for the enterprise. Their values influence the direction of the enterprise. Although the term ***value*** is used differently, a **value** can be defined as a fairly permanent belief about what is appropriate and what is not that guides the actions and behavior of employees in fulfilling the organization’s aims. Values can be thought of as forming an ideology that permeates everyday decisions.

Value A fairly permanent belief about what is appropriate and what is not that guides the actions and behavior of employees in fulfilling the organization’s aims.

In many successful companies, value-driven corporate leaders serve as role models, set the standards for performance, motivate employees, make the company special, and are a symbol to the external environment. It was Edwin Land, the founder of Polaroid, who created a favorable organizational environment for research and innovation. It was Jim Treybig of Tandem, in the Silicon Valley near San Francisco, who emphasized that every person is a human being and deserves to be treated accordingly. It was William Cooper Procter of Procter & Gamble who ran the company with the slogan “Do what is right.” It was Theodore Vail of AT&T who addressed the needs of customers by emphasizing service. It was Du Pont’s CEO Woolard who initiated the “Adopt a Customer” program, through which workers are encouraged to visit their customers monthly to find out their needs and concerns. The organization culture created by corporate leaders can result in managerial functions being carried out in different ways.

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www.pg.com

While the CEO must indicate the direction, some contend that change must come from the bottom of the organization. At Du Pont’s Towanda plant in Pennsylvania, people are organized in self-directing teams. Employees have a great deal of freedom to set their own schedules, solve their own problems, and even participate in selecting coworkers. Indicative of this culture is that managers are called facilitators rather than superiors.

Changing a culture may take a long time, even 5-10 years. It demands changing values, symbols, myths, and behavior. It may require to first understanding the old culture, then identifying a subculture in the organization, and rewarding those living this new culture. Rewards do not have to be in financial terms. In Sharp’s factory in Japan, top performers are rewarded by becoming members of the “gold badge” team that reports directly to the president. At any rate, CEOs must symbolize the culture they want to promote.

A clear vision of a common purpose elicits commitment. Moreover, when people participate in the decision-making process and exercise self-direction and self-control, they feel committed to their own plans. But espoused values need to be reinforced through rewards and incentives, ceremonies, stories, and symbolic actions.

Entrepreneurial Perspective

Metaphors may Reveal Implicit Organizational Culture for Entrepreneurs and Investors

A good deal of research has been completed to help understand organizational culture. Recent research into how the heuristic or worldview of entrepreneurs and venture capitalists may be revealed by the metaphors they use is instructive. For example, scholars have found that commonly used metaphors by entrepreneurs[12] can be categorized as dealing with "parenting" and "building" their business, while new research finds that VCs' predominant metaphors include categories such as "Darwinian" (only the strongest businesses will survive) and "Architecture" (e.g., exiting the building).[13]

These metaphors may reveal the underlying culture of entrepreneurs and VCs and point to potential conflicts in their relationships. Understanding these inherent tendencies may help to avert cultural conflict in the future.

SUMMARY

Organizing involves developing an intentional structure of roles for effective performance. Many mistakes in organizing can be avoided by first planning the ideal organization for goal achievement and then making modifications for the human or other situational factors. Organization planning identifies staffing needs and helps overcome staffing deficiencies. It also discloses duplication of effort, unclear authority and communication lines, and obsolete ways of doing things. An effective organization remains flexible and adjusts to changes in the environment.

To make staff work effective, it is important to clarify authority relationships, to make line listen to staff, and to keep staff informed. Furthermore, effectiveness demands that staff prepare complete recommendations and that the utilization of staff becomes a way of organizational life.

Organizational conflict can be reduced by the use of organization charts and position descriptions. Organizing is improved by teaching its nature and by recognizing the informal organization and the grapevine. Moreover, effective enterprises develop and nurture an appropriate organization culture.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Avoiding mistakes in organizing by planning
- Avoiding organizational inflexibility
- Effective staff work
- Avoiding conflict by clarification
- Organization chart
- Position description
- Understanding of organizing
- Informal organization
- The grapevine
- Organization culture and values

FOR DISCUSSION

1. Many psychologists have pointed to the advantage of job enlargement, which refers to assigning tasks that are not so specialized that an individual loses a sense of doing things that are meaningful. Assuming that managers wish to limit task specialization and "enlarge" jobs, can they do so and still apply the basic principles of organizing? How?
2. Taking an organized enterprise with which you have some familiarity, can you find any of the deficiencies that commonly occur in organization structures?
3. It is sometimes stated that the typical organization chart is undemocratic, in that it emphasizes the superiority and inferiority of people and positions. Comment.
4. What would you need to know to plan an organization structure? How far ahead should you plan it? How would you go about making such a plan?
5. Take an organization that you know and discuss its culture. Is the culture helping or hindering the organization with respect to the achievement of its goals? In what ways?

EXERCISE/ACTION STEPS

1. Visit a company in your area that is considered a model of effective management. Get any information on this company that gives you some insight into its operation. What makes this organization excellent? Would you like to work for this enterprise? Why or why not?
2. Use LinkedIn to identify organizations whose structure and culture may be attractive.

INTERNET RESEARCH

1. Search the Internet for the term “organization planning” and locate the resources of organization planning on the Web.
2. Search the Internet for reviews of the book ***In Search of Excellence*** by Peters and Waterman.

International Case

Restructuring at Korea's Daewoo[14]

Daewoo was founded in 1967 by its hardworking, relentlessly driven chairman, Kim Woo-Choong. After its initial success in exporting textiles, the company expanded into trade, autos, machinery, consumer electronics, construction, heavy shipping, computers, telephones, and financial services, becoming Korea’s fourth largest business group. It became a textile supplier for Sears, Christian Dior, Calvin Klein, and London Fog. It also engaged in a joint venture with General Motors (GM) to build the Le Mans car. However, labor and other problems limited car shipments.

Chairman Kim’s philosophy of hard work and the value placed in people were important factors in the firm’s success. However, in the late 1980s and early 1990s, the company faced several problems. For one, Kim was concerned that, with the increasing prosperity of Koreans, the workforce might lose the spirit of hard work. Moreover, there was growing discontent among younger workers and decreasing motivation.

Through Kim’s hands-off approach to managing, some of the companies in the Daewoo group went out of control. For example, in the unprofitable heavy shipping unit, he noticed many unnecessary expenses. The elimination of company-sponsored barbershops saved the company $8 million a year. In general, Daewoo’s workforce was young and well educated. In contrast to similar positions in many other Korean companies, top positions at Daewoo were occupied by managers with no family ties.

Although Daewoo was a major company with its 91,000 employees, it was not dominant in any one industry. The strategy of being a supplier for major foreign companies, such as Caterpillar, GM, and Boeing, may have led to opportunities being bypassed for becoming a major marketer of its own brands. Now, in the 1990s, Kim was also looking at opportunities in Europe; for example, he formed a joint venture with a distribution company in France.

The massive restructuring had already shown some positive effects. Kim sold some steel, financial, and real estate units. The hands-off managerial style had been replaced by a hands-on style, resulting in recentralization. Managers were "retired" or otherwise let go. Thousands of positions were also eliminated.

Things were looking better in 1991. The company lost money in 1988 and 1989 but made some profit in 1990, partly because of the sale of some major assets. The joint venture with GM registered a healthy growth. The company was also optimistic about the future of the new compact car Espero. Still, Daewoo had to cope with its labor costs and Japanese competition.

What looked good in the early 1990s dramatically changed in the latter part of that decade and especially in the years 2000-2002. In 2000, Ford planned to buy Daewoo Motor for some $7 billion. However, the deal fell apart later that year. Moreover, the company went bankrupt in November 2000. Chairman Kim mysteriously disappeared. He liked to think big, and he left behind a company with big debts. Several billion dollars were also unaccounted for. With Ford out of the picture, GM entered seriously into negotiations with Daewoo, which was once Korea's second biggest car maker. On April 30, 2002, GM agreed to buy the bankrupt company, which was renamed GM-Daewoo. What is in it for GM? The acquisition is a key component of its global strategy. On the other hand, restructuring Daewoo is going to be a formidable task. The brand image has to be restored and the Korean market share of 10 percent (which was 37% in 1998) has to be improved. The product line also has to be reviewed and complemented with new models. Moreover, GM-Daewoo can expect difficulties with Korea's aggressive unions.

Questions

1. What are the advantages and disadvantages of a hands-off, decentralized management approach?
2. How can Daewoo stay competitive with the Japanese?
3. What were some of the controllable and uncontrollable factors in this case? How should Mr. Kim have responded to those factors?
4. What do you think of Daewoo's expansion into Europe? What are the advantages and risks for the company?
5. Why do you think GM acquired the company while Ford did not?
6. What problems can GM-Daewoo expect in the future?

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Part 3 Closing

Major Principles or Guides for the Managerial Function of Organizing

As mentioned in the Part Closing on planning, a complete set of empirically proven, interrelated principles has not been discovered and codified; experience and observation of managing indicate certain fundamental managerial principles or guides.

Each principle is given a number with a letter that represents the type of managerial function. Therefore, the letter "O" refers to organizing.

MAJOR PRINCIPLES OR GUIDES FOR ORGANIZING

Although the science of organizing has not yet developed to the point where its principles are infallible laws, there is considerable agreement among management scholars and practitioners about a number of them. These principles are truths (or are believed to be truths) of general applicability, although their application is not precise enough to give them the exactness of the laws of pure science. They are more in the nature of essential criteria for effective organizing. The most essential guiding principles of organizing are summarized below.

The Purpose of Organizing

The purpose of organizing is to aid in making objectives meaningful and to contribute to organizational efficiency.

O1. *Principle of unity of objectives.* An organization structure is effective if it enables individuals to contribute to enterprise objectives.

O2. *Principle of organizational efficiency*. An organization is efficient if it is structured to aid the accomplishment of enterprise objectives with a minimum of unsought consequences or costs.

The Reason for Organizing

The basic reason for the organization structure is the limitation of the span of management. If there were no such limitation, an enterprise might have only one manager and no organization structure.

O3. *Principle of the span of management.* In each managerial position, there is a limit to the number of persons an individual can effectively manage, but the exact number will depend on the impact of underlying variables.

The Structure of Organization: Authority

Authority is the cement of the organization structure, the thread that makes it possible, the means by which groups of activities can be placed under a manager and coordination of organizational units can be promoted. It is the tool by which a manager is able to exercise discretion and to create an environment for individual performance. Some of the most useful principles of organizing are related to authority.

O4. *Scalar principle*. The clearer the line of authority from the ultimate management position in an enterprise to every subordinate position, the clearer will be the responsibility for decision making and the more effective will be organizational communication.

O5. *Principle of delegation by results expected.* Authority delegated to all individual managers should be adequate to ensure their ability to accomplish expected results.

O6. *Principle of absoluteness of responsibility*. The responsibility of subordinates to their superiors for performance is absolute, and superiors cannot escape responsibility for the organizational activities of their subordinates.

O7. *Principle of parity of authority and responsibility.* The responsibility for actions should not be greater than that implied by the authority delegated, nor should it be less.

O8. *Principle of unity of command.* The more complete an individual's reporting relationships to a single superior, the smaller the problem of conflicting instructions and the greater the feeling of personal responsibility for results.

O9. *Authority-level principle*. Maintenance of intended delegation requires that decision within the authority of individual managers should be made by them and not be referred upward in the organization structure.

The Structure of Organization: Departmentalized Activities

Organization involves the design of a departmental framework. Although there are several principles in this area, one is of major importance.

O10. *Principle of functional definition.* The more a position or a department has a clear definition of the results expected, activities to be undertaken, and organizational authority delegated, as well as an understanding of authority and informational relationships with other positions, the more adequately the individual responsible can contribute toward accomplishing enterprise objectives.

The Process of Organizing

The various principles of authority delegation and of departmentation are fundamental truths about the process of organizing. They deal with phases of the two primary aspects of organizing: authority and activity groupings. There are other principles that deal with the process of organizing. It is through their application that managers gain a sense of proportion or a measure of the total organizing process.

O11. *Principle of balance.* In every structure, there is a need for balance. The application of principles or techniques must be balanced to ensure overall effectiveness of the structure in meeting enterprise objectives.

O12. *Principle of flexibility.* The more that provisions are made for building flexibility into an organization structure, the more adequately an organization structure can fulfill its purpose.

O13. *Principle of leadership facilitation.* The more an organization structure and its delegation of authority enable managers to design and maintain an environment for performance, the more they will help the leadership abilities of those managers.

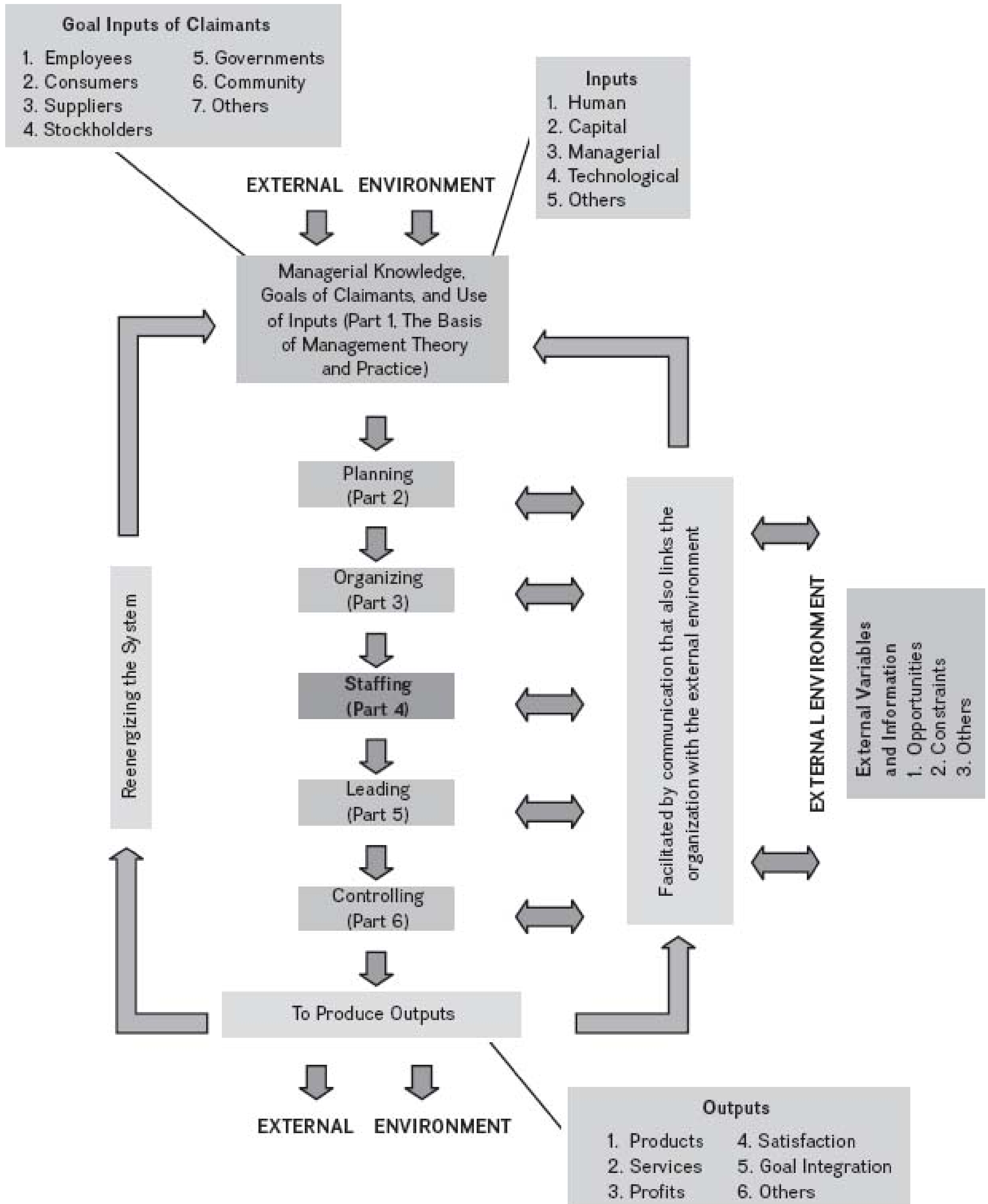
The principle of balance is common to all areas of science and to all functions of the manager. The inefficiencies of broad spans of management must be balanced against the inefficiencies of long lines of communication. The losses from multiple commands must be balanced against the gains from expertness and uniformity in delegating functional authority to staff and service departments. The savings of functional specialization in departmentalizing must be balanced against the advantages of establishing profit-responsible, semi-independent product or territorial departments. It is apparent, once again, that the application of management theory depends on the specific situation.

The principle of flexibility demands that devices and techniques for anticipating and reading to change be built into every structure. Every enterprise moves toward its goal in a changing environment, both internal and external. The enterprise that develops inflexibilities, whether these are resistance to change, overcomplicated procedures, or too-firm departmental lines, is risking the inability to meet the challenges of economic, technological, biological, political and social changes.

Since managership depends to a great extent on the quality of leadership of those in managerial positions, it follows from the principle of leadership facilitation that the organization structure should do its part in creating a situation in which a manager can most effectively lead. In this sense, organizing is a technique of promoting leadership. If the authority allocation and the structural arrangements create a situation in which heads of departments tend to be looked upon as leaders and in which their task of leadership is aided, organization structuring has accomplished an essential task.

PART 4

Staffing



SYSTEMS APPROACH TO MANAGEMENT: Staffing

Part 4

Chap. 11. Human Resource Management and Selection

- Definition of Staffing
- The Systems Approach to Human Resource Management: An Overview of the Staffing Function
- Situational Factors Affecting Staffing
- Selection: Matching the Person with the Job
- The Systems Approach to Selection: An Overview
- Position Requirements and Job Design
- Skills and Personal Characteristics Needed in Managers
- Matching Qualifications with Position Requirements
- Selection Process: Techniques and Instruments
- Orienting and Socializing New Employees
- Managing Human Resources While Moving Toward 2020

Chap. 12. Performance Appraisal and Career Strategy

- Importance of Effective Managerial Appraisal
- Choosing Appraisal Criteria
- Appraising Managers Against Verifiable Objectives
- Appraising Managers as Managers: a Suggested Program
- A Team Evaluation Approach
- Application of Performance Review Software
- Rewards and Stress of Managing
- Formulating the Career Strategy

Chap. 13. Managing Change through Manager and Organization Development

- Manager Development, Managerial Training and Organizational Development
- Manager Development Process and Training
- Approaches to Manager Development: On-the-Job Training
- Approaches to Manager Development: Internal and External Training
- Evaluation and Relevance of Training Programs
- Managing Change
- Organizational Conflict
- Organization Development
- The Learning Organization

Part 4 Closing: Major Principles or Guides for the Managerial Function of Staffing

- Major Principles or Guides for Staffing
- The Purpose of Staffing
- The Process of Staffing

CHAPTER 11

Human Resource Management and Selection

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Define the managerial function of staffing
2. Describe the systems approach to human resource management
3. Explain the management inventory and the factors in the external and internal environments affecting staffing
4. Explain the policy of open competition and ways to make staffing more effective
5. Summarize important aspects of the systems approach to manager selection
6. Analyze position requirements, important characteristics of job design, and personal characteristics needed in managers
7. Describe the process of matching manager qualifications with position requirements
8. Discuss the orientation and socialization process for new employees

Few executives would argue with the fact that talented people are vital for the effective operation of a company. Managers often say that people are their most important asset. Yet, the “human assets” are virtually never shown on the balance sheet as a distinct category, although a great deal of money is invested in the recruitment, selection, and training of people. It is for this reason that the late Rensis Likert and his colleagues suggested maintaining accounts of the valuable human assets. They refer to this process as “human resource accounting.” This approach is not without its problems, and there is even conflict among management experts, between the proponents of human resource accounting and the financial people who have to develop the system for measuring human assets.[1] What is important here is the recognition that staffing is a crucial function of managers, one that may well determine the success or failure of an enterprise.

This chapter begins with a definition of the managerial function of staffing and an explanation of the role of the manager in this function. It then provides an overview of the systems approach to human resource management before concluding with a discussion of the various aspects of selecting the right person.

DEFINITION OF STAFFING

The managerial function of **staffing** is defined as filling and keeping filled positions in the organization structure. This is done by identifying workforce requirements, inventorying the people available, and recruiting, selecting, placing, promoting, appraising, planning the careers of, compensating, and training or otherwise developing both candidates and current jobholders so that they can accomplish their tasks effectively and efficiently. It is clear that staffing must be closely linked to organizing, that is, the setting up of intentional structures of roles and positions.

Staffing Filling and keeping filled positions in the organization structure.

Many writers on management theory discuss staffing as a phase of organizing. In this book, however, staffing is identified as a separate managerial function for several reasons. First, the staffing of organizational positions includes knowledge and approaches not usually recognized by practicing managers, who often think of organizing as just setting up a structure of roles and give little attention to filling these roles. Second, making staffing a separate function facilitates placing an even greater emphasis on the human element in personnel selection, appraisal, career planning, and manager development. Third, an important body of knowledge and experience has been developed in the area of staffing. The fourth reason for separating staffing is that managers often overlook the fact that staffing is their responsibility, not that of the personnel department. To be sure, this department provides valuable assistance, but it is the job of managers to fill the positions in their organization and to keep them filled with qualified people.

THE SYSTEMS APPROACH TO HUMAN RESOURCE MANAGEMENT: AN OVERVIEW OF THE STAFFING FUNCTION[2]

Figure 11-1 shows how the managerial function of staffing relates to the total management system. Specifically, enterprise plans become the basis for organization plans, which are necessary in order to achieve enterprise objectives. The present and projected organization structures determine the number and kinds of managers required. These demands are compared with available talent through the management inventory. On the basis of this analysis, external and internal sources are utilized in the processes of recruitment, selection, placement, promotion, and separation. Other essential aspects of staffing are appraisal, career strategy, and training and development of managers.

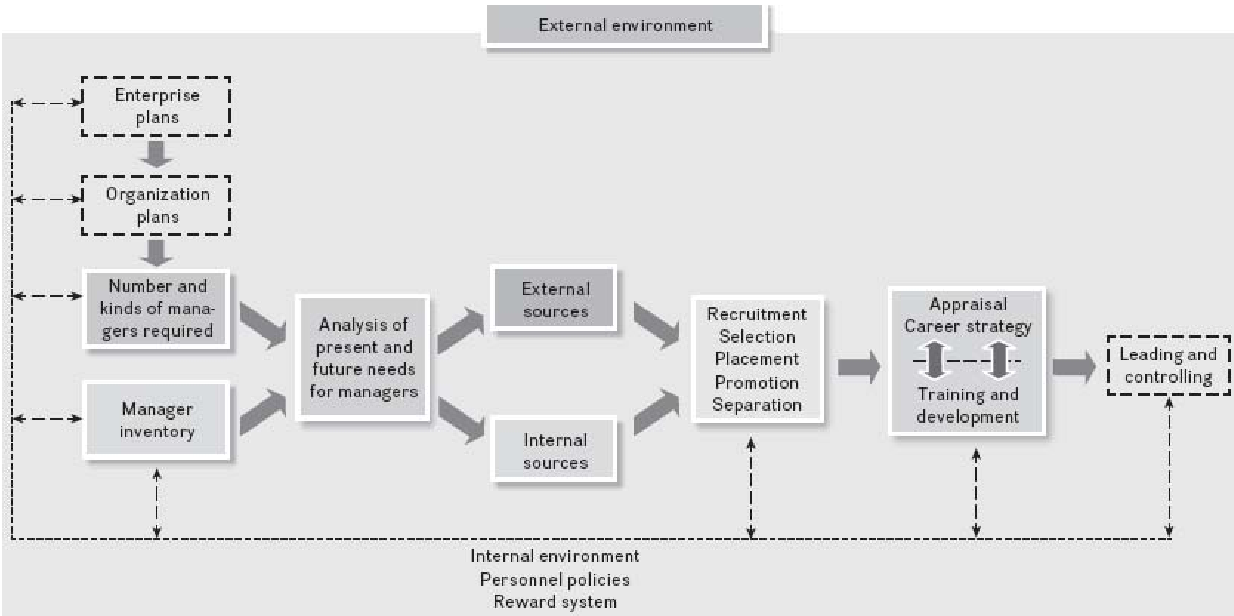


FIGURE 11.1 Systems approach to staffing

The figure is an overview of the staffing function. The variables not discussed in Part 4, but which also affect staffing, are enclosed with broken lines. Enterprise plans are discussed in Part 2, organization plans in Part 3, and leading and controlling in parts 5 and 6.

Staffing, as seen in the model, affects leading and controlling. For instance, well-trained managers create an environment in which people, working together in groups, can achieve enterprise objectives and at the same time accomplish personal goals. In other words, proper staffing facilitates leading. Similarly, selecting quality managers affects controlling, for example, by preventing many undesirable deviations from becoming major problems.

Staffing requires an open systems approach. It is carried out within the enterprise, which in turn is linked to the external environment. Therefore, internal factors of the firm, such as personnel policies, the organizational climate, and the reward system, must be taken into account. Clearly, without adequate rewards, it is impossible to attract and keep quality managers. The external environment cannot be ignored either: high technology demands well-trained, well- educated, and highly skilled managers. Inability to meet the demand for such managers may well prevent an enterprise from growing at a desired rate.

Factors Affecting the Number and Kinds of Managers Required

The number of managers needed in an enterprise depends not only on its size, but also on the complexity of the organization structure, the plans for expansion, and the turnover rate of managerial personnel. The ratio between the number of managers and the number of employees does not follow any law. It is possible, by expanding or contracting the delegation of authority, to modify a structure so that the number of managers in a given instance will increase or decrease regardless of the size of an operation.

Although the need for determining the number of managers required has been stressed here, it is clear that numbers are only part of the picture. Specifically, the qualifications for individual positions must be identified so that the best-suited managers can be chosen. This kind of detailed analysis of position requirements will be discussed later in this chapter.

Determination of Available Managerial Resources: The Management Inventory

It is common for any business as well as for most nonbusiness enterprises to keep an inventory of raw materials and goods on hand to enable it to carry on its operation. It is far less common for enterprises to keep an inventory of available human resources, particularly managers, despite the fact that the required number of competent managers is a vital requirement for success. Keeping abreast of the management potential within a firm can be done by the use of an inventory chart (also called management replacement chart), which is simply an organization chart of a unit with managerial positions indicated and keyed as to the promotability of each incumbent.

Figure 11-2 depicts a typical manager inventory chart. At a glance, the controller can see where he or she stands with respect to the staffing function. The controller's successor is probably the manager of general accounting and this person, in turn, has a successor ready for promotion. Supporting that person, in turn, is a subordinate who will be ready for promotion in a year, but below that position are one person who does not have potential and two newly hired employees.

Innovation Perspective

Perspective on Human Resource Management and Selection by Brett Bonthron, Vice President, Salesforce, Office of Innovation.[3]

Mr. Bonthron indicated, “Changes in technology driven by the Fourth Industrial Revolution and millennial expectations are driving significant changes into HR Management. In fact, in many circles, the management of people (or HR) is now referred to as 'Employee Engagement’ which represents the intention - to engage the people that work in a company. Companies evolving their HR Management capabilities are seeing significant benefits to their business including lower costs, better employee engagement (Emp-Sat, Employee Satisfaction), and retention.”

Mr. Bonthron continued, “Employees are looking for solutions that model the way the 'app world’ and Business-to-Consumer (B2C) revolution have evolved. Employees want simple, easy to use interfaces. They want to ask natural language questions and get answers. They don’t need to speak to a Customer Service rep unless the AI driven chat-bot can’t find the answer. They expect training at their finger-tips, when they want and how they want (like Salesforce’s Trailblazer product).”

He concluded, “Companies must wrap their HR Management processes around their employees putting them at the center, just as they would a customer. At Salesforce, the under pinnings of putting the Employee at the center of our business is 1) Employee-centric business processes 2) Building one team around the employee 3) Sensing and Responding to employee needs and 4) Building the leanest technology stack possible to make it all work.”

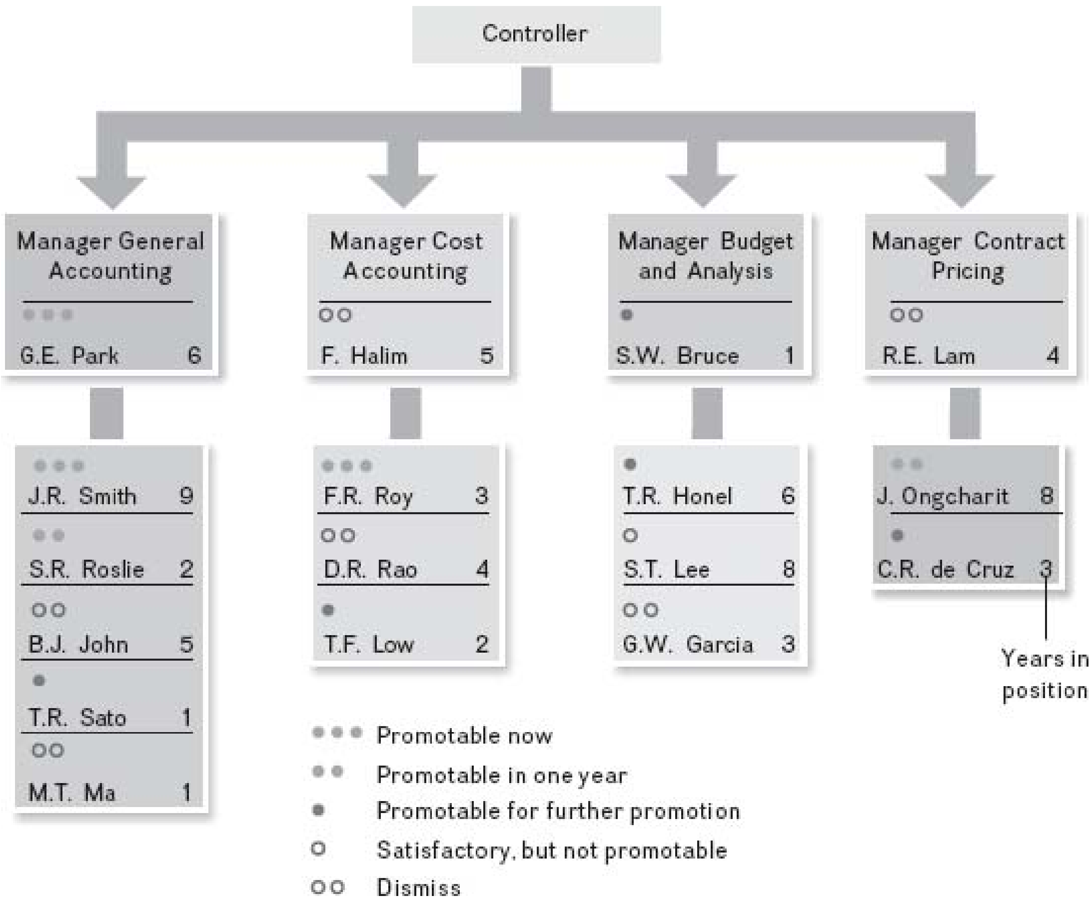


FIGURE 11-2 Manager inventory chart

Analysis of the Need for Managers: External and Internal Information Sources

As shown in Figure 11-1, the need for managers is determined by enterprise and organization plans and more specifically, by an analysis of the number of managers required and the number available as identified through the management inventory. But there are other factors—internal and external—that influence the demand for and supply of managers. The external forces include economic, technological, social, political, and legal factors (which were discussed in chapters 2 and 3). For example, economic growth may result in increased demand for a product, which in turn requires an expansion of the workforce, thus increasing the demand for managers. At the same time, competing companies may also expand and recruit from a common labor pool, thus reducing the supply of managers. One must also consider the trends in the labor market, the demographics, and the composition of the community with respect to knowledge and skills of the labor pool and the attitude toward the company. Information about the longterm trends in the labor market may be obtained from several sources. The U.S. government, for example, publishes the *Monthly Labor Review* and the annual *Manpower Report of the President*, which makes longterm projections. Some trade associations and unions also project the demand for labor.

The need for and the availability of personnel give rise to four demand and supply situations, each requiring a different emphasis in personnel actions. This is illustrated in the matrix shown in Figure 11-3.

FIGURE 11-3 Personnel actions based on manager supply and demand within the enterprise

The demand for and supply of labor must not be viewed from a national or even local perspective only. On a global scale, we find the imbalance of demand and supply increasing. In the past, labor was very much a fixed factor of production. But in several developing countries, such as Taiwan, South Korea, Poland, and Hungary, the demand for qualified labor and managers has increased with their rapid economic development, resulting in labor shortages. The educational level of the global work force is also changing, with the proportion of college graduates rising in developing countries such as China and Brazil.

International Perspective

Can Leadership Be Transferred Between Industries?[4]

Alan Mulally was some 40 years with Boeing, an aircraft company, before becoming CEO of at Ford Motor Company, a car company. In selecting Mulally as CEO, some people were doubtful that he could succeed at Ford when he took over the job from Chairman and CEO William Ford. Can the experiences in the aircraft organization be transferred to running a mass- producing car company? The answer is "yes." Contributing to the success, Mulally did not approach his new job as an autocrat; rather, he focused on consensus and building a vision for Ford. He led by example by reducing his own salary by 30 percent for 2009/2010 to share in the sacrifices required by his employees, a measure necessary to cope with the effects of the financial crisis. Mulally's leadership style emphasized open communication and transparency. While optimistic and confident in his decisions, he showed great humility. Mulally demonstrates that a good leader can transfer his leadership skills from the aircraft to the automobile industry.

Other Important Aspects in the Systems Approach to Staffing

After the need for managerial personnel has been determined, a number of candidates may have to be *recruited* (Figure 11-1). This involves attracting qualified candidates to fill organizational roles. From these, managers or potential managers are *selected*; this is the process of choosing from among the candidates the most suitable ones. The aim is to *place* people in positions that allow them to utilize their personal strengths and perhaps overcome their weaknesses by getting experience or training in those skills in which they need improvement. Finally, placing a manager within the enterprise in a new position often means a *promotion*, which normally involves more responsibility. Since recruitment, selection, placement, and promotion are complex processes, which will be discussed in greater detail later in this chapter. Similarly, appraisal, career strategy, training, and development will be discussed in the following staffing chapters. The reference to leading and controlling in Figure 11-1 indicates that effective staffing influences these functions.

The staffing model shows that managers have to be recruited, selected, placed, and promoted.

SITUATIONAL FACTORS AFFECTING STAFFING

The actual process of staffing shown in Figure 11-1 is affected by many environmental factors. Specifically, external factors include the level of education, the prevailing attitudes in society (such as the attitude toward work), the many laws and regulations that directly affect staffing, the economic conditions, and the supply of and demand for managers outside the enterprise.

There are also many internal factors that affect staffing. They include organizational goals, tasks, technology, organization structure, the kinds of people employed by the enterprise, the demand for and the supply of managers within the enterprise, the reward system, and various kinds of policies. Some organizations are highly structured, while others are not. For some positions, such as that of a sales manager, skill in human relations may be of vital importance, while the same skill may be less critical for a research scientist working fairly independently in the laboratory. Effective staffing, then, requires recognition of many external and internal situational factors, but the focus here is on those that have a particular relevance to staffing.

Leadership Perspective

Why Leave a "Dream Job" at Microsoft?[5]

Microsoft is well known for attracting exceptionally bright, ambitious people. Many have become multimillionaires during their tenure at Microsoft. So, why would they leave the company? It has been estimated that about 50 or more depart each week. Many who left had been with the company from its early beginning, becoming very rich during that time. Still, the number leaving the company is only about half the industry average.

www.microsoft.com

Due to the phenomenal growth of the company, the number of employees grew to over 30,000. Even with the best programs, a small company atmosphere gives way to more structure with some loss of freedom to create and innovate. Microsoft probably has done a better job in maintaining an open corporate culture than most other firms. Still, some of the creative people feel constrained by the size of the corporation.

Changes in the external environment also have tempted many employees to leave. The Internet, new dot-com firms, and wireless service companies are offering new challenges. Although leaving Microsoft and joining startup companies may mean considerable career risks, some still have the burning feeling to "change the world"—and this can often be better accomplished by joining a small, nimble startup firm exploiting the new technologies. For Microsoft, the loss of intellectual capital can be a serious threat, perhaps even more so than its competitors Sun and Oracle, or even the government threatening to break up the company. For many people, it was a difficult decision to leave a "dream job."

More recently, Microsoft has reinvented itself — building up its Cloud Services business to again be among the most valuable companies in the world. Satya Nadella became CEO in February 2014 and leveraged his experience in enterprise and consumer businesses at Microsoft to usher in a resurgence of the business.

The External Environment

Factors in the external environment do affect staffing to various degrees. These influences can be grouped into educational, sociocultural, legal- political, and economic constraints or opportunities. For example, the high technology used in many industries requires extensive and intensive education. Similarly, managers in the sociocultural environment in the United States generally do not accept orders blindly but would want to become active participants in the decisionmaking process. Furthermore, now and in the future, managers will have to be more oriented toward the public than they have been in the past, responding to the public's legitimate needs and adhering to high ethical standards.

The economic environment, including the competitive situation, determines the external supply of and the demand for managers. Legal and political constraints require that organizations follow laws and guidelines issued by various levels of government. For example, Table 11-1 summarizes major U.S. federal laws relating to fair employment that influence the staffing function. The following discussion focuses on equal employment opportunity and the role of women in management as well as on the staffing of international businesses.

TABLE 11-1 Major U.S. federal laws governing equal employment opportunity

Law	Provision
Equal Pay Act (1963)	Equal pay for equal work regardless of

	sex
Title VII of the Civil Rights Act (1964) (amended in 1972)	Equal employment opportunity regardless of race, color, religion, sex, and national origin
Age Discrimination in Employment Act (1967) (amended from ages 65 to 70 in 1978)	Equal employment opportunity for ages 40-70
Vocational Rehabilitation Act (1973)	Equal employment opportunity and reasonable affirmative action for handicapped people
Pregnancy Discrimination Act (1978)	Equal employment opportunity during pregnancy
Immigration Reform and Control Act (1986)	Making illegal the hiring, recruitment, or referral of a person known to be an unauthorized alien
Americans with Disabilities Act (1990)	Better access for disabled persons to services and jobs
Older Workers Benefit Protection Act (1990)	Protection for employees over 40 years old with respect to fringe benefits; requirement that employees be given time to consider early-retirement offer
Civil Rights Act (1991)	Allowing women, persons with disabilities, and persons who are religious minorities to a jury trial as well as to suing for punitive damages in certain situations
Family and Medical Leave Act (1993)	Allowing qualified persons to have prolonged unpaid leave for family and health-related reasons without fear of job loss
Sarbanes-Oxley Act (2002)	Passed partly in response to major corporate and accounting scandals, including Enron and Tyco. It requires businesses to provide more disclosure and to adopt higher standards

Sources: Keith Davis and John W. Newstrom, *Human Behavior at Work: Organizational Behavior*, 8th ed. (New York: McGraw-Hill, 1990); Lloyd L. Byars and Leslie W. Rue, *Human Resource Management*, 5th ed. (Chicago: Irwin, 1997); Family and Medical Leave Act of 1993, *www.dol.gov/esa/regs/statutes/whd/fmla.htm*, accessed June 5, 2002, The Sarbanes-Oxley Act 2002, http://www.soxlaw.com/, accessed April 28, 2014.

Equal employment opportunity

Several laws have been passed in the United States that provide for equal employment opportunity. They prohibit employment practices that discriminate on the basis of race, color, religion, national origin, sex, or age (in specified age ranges). These laws impact on staffing, as recruitment and selection for promotion must be in compliance with them. This means that managers making decisions in these areas must be knowledgeable about these laws and the way they apply to the staffing function.

Women in management

In the last decade or so, women have made significant progress in obtaining responsible positions in organizations. Among the reasons for this development are laws governing fair employment practices, changing societal attitudes toward women in the workplace, and the desire of companies to project a favorable image by placing qualified women in managerial positions.

Diversity in the Workplace[6]

Organizations today have a very diverse workforce. This is not only true in the United States, but also in other countries. In addition to higher ethnic and gender diversity, the average American worker and manager is also older. However, increasing diversity is also seen in education and the economic backgrounds.

The diverse workforce has implications for staffing such as recruitment, selection, training and development, work schedule flexibility, affirmative actions, provisions for preventing sexual harassment, and the establishment of an appropriate organization culture.

Working in a diverse workplace not only has many advantages, but also poses challenges for managers. The advantages may include bringing different perspectives to management and nonmanagerial issues, learning tolerating different views, developing behavioral flexibility, and accepting that everyone is different.

The managerial challenges deal with communication problems, difficulty in reaching an agreement, shifting from a monoculture to pluralism, and overcoming the ethnocentric outlook that assumes that his or her position is the only correct one. Many companies, especially large corporations, have established diversity management programs.[7] McDonalds, Ford Motor Company, All state Insurance, IBM, Dole Food, and Xerox are just a few of those firms. Yet, conflicts will remain and need to be managed effectively, as discussed in Chapter 10 and will be addressed again in Chapter 13, where we discuss managing conflict.

Staffing in the international environment[8]

One must look beyond the immediate external environment and recognize the worldwide changes brought about primarily by advanced communication technology and by the existence of multinational corporations. It is not unusual for large international firms to have top management teams composed of managers of many different nationalities. The geocentric attitude is the basis for viewing the organization as a worldwide entity engaged in global decision-making, including staffing decisions.

Companies have three sources for staffing the positions in international operations: (1) managers from the home country of the firm, (2) managers from the host country, and (3) managers from other countries. In the early stages of the development of an international business, managers are often selected from the home country. Some of the reasons include the managers' experience at the head office and their familiarity with products, personnel, enterprise goals and policies, and so on. This facilitates not only planning, but also control. On the other hand, the home country national may be unfamiliar with the language or the environment of the foreign country. Moreover, it is usually more expensive to send managers and their families abroad, and the families often find it difficult to adjust to the new environment of a foreign country. Also, host countries may pressure the parent firm to employ host country managers.

Managers who are host country nationals speak the local language and are familiar with their country's environment. Employing them is generally less costly, and it may not require relocating them and their families. The problem is that those managers may not be familiar with the firm's products and operations, and thus control may be more difficult.

The other alternative is to employ third-country nationals, who often are international career managers. Still, the host country may prefer to have its own nationals in the positions of power. One has to be also cautious in selecting managers from countries that had political conflicts in the past. There are, of course, many other factors that have to be taken into account when operating abroad.

Leadership Perspective

Wipro's Development Center in Atlanta[9]

India's global information technology services company, Wipro, chose Atlanta for its software development center. The plan is to start small but expand later. The idea is to use local people who know local business needs. Around Atlanta are 12 universities from which the center will draw local talents. But this global expansion of Wipro is not new because it has already more than 12 offices in the United States.

The Internal Environment

The internal factors selected for this discussion concern staffing managerial positions—with personnel from within the firm as well as from the outside—and determining the responsibility for staffing.

Promotion from within

Originally, promotion from within implied that workers proceeded into first line supervisory positions and then upward through the organization structure. Thus, a firm was pictured as receiving a flow of nonmanagerial employees from which future managers emerged. It used to be said in the railroad industry, “When a president retires or dies, we hire a new office worker.”

As long as the matter is considered in general terms, there is little doubt that employees overwhelmingly favor a policy of promotion from within. The banning of outsiders reduces competition for positions and gives employees an established monopoly on managerial openings. Employees come to doubt the wisdom of the policy, however, when they are confronted with a specific case of selection of one of their own for promotion. This feeling is present at all levels of the organization, largely because of jealousy or because of rivalry for promotion. The difficulty becomes most evident when a general manager is being selected from among the sales, production, finance, or engineering managers. Top managers are often inclined to choose the easy way and avoid problems by selecting an outsider.

Promoting from within the enterprise not only has positive values relating to morale, employees’ long-run commitment to the company, and the firm’s reputation, but it also allows the enterprise to take advantage of the presence of potentially fine managers among its employees. However, although these positive but unmeasurable values are important, executives should not be blind to the dangers of either overemphasizing this source or relying on it exclusively.

A danger presented by a policy of exclusively promoting from within is that it may lead to the selection of persons who have perhaps only imitated their superiors. This is not necessarily a fault, especially if only the best methods, routines, and viewpoints are cultivated; but, this is likely to be an unapproachable ideal. The fact is that enterprises often need people from the outside to introduce new ideas and practices. Consequently, there is good reason to avoid a policy of exclusive promotion from within.

Promotion from within in large companies

On the other hand, a policy of promotion from within may be quite suitable for very large companies such as Sears, Du Pont, or General Motors. Large business and nonbusiness organizations usually have so many qualified people that promotion from within actually approaches a condition similar to an open competition policy. Even in these large companies, however, it may be necessary to go outside, as General Motors did when it hired a university professor as vice president to head its environmental control staff.

www.sears.com
www.dupont.com
www.gm.com

International Perspective

Managing Human Resources at Walmart[10]

Walmart is the largest U.S. private employer, with over a million people. Sam Walton, the founder of the company, had a special rapport with his employees, called associates. Although he died in 1992, he is lovingly remembered for his caring, his concern, his listening to them, and his open door policy. His legacy continues. He was lovingly called Mr. Sam, who showed his concern for people by initiating a policy of paying a time and a half for working on Sundays. Walmart paid low wages, yet employees were generally happy, which was one of the reasons the company grew rapidly. The importance of people is also shown in the associates' handbook: "The undeniable cornerstone of Walmart's success can be traced back to our strong belief in the dignity of each individual."

Sam's successors tried to maintain the organizational climate — and succeeded to a great extent. But things are changing, ranging from the elimination of the 50 percent extra pay for Sunday work to demands created by the long store hours, such as unsuitable working hours in stores that are open 24 hours. The change in orientation may also be shown by the slogan on the blue aprons associates wear. It changed from "Our people make the difference" to "How may I help you?", which could be interpreted as a change in focus from the associate to the customer. Taking advantage of the concern of some associates, labor unions try to recruit members in some locations.

Although Walmart is still very successful, its growth has slowed. The challenge is to maintain a concerned human organization despite its size.

The policy of open competition

Managers must decide whether the benefits of a policy of promotion from within outweigh its shortcomings. There are clear-cut reasons for implementing the **principle of open competition** by filling vacant positions to the best-qualified persons available, whether inside or outside the enterprise. It gives the firm, in the final analysis, the opportunity to secure the services of the best-suited candidates. It counters the shortcomings of a policy of exclusive promotion from within, permits a firm to adopt the best techniques in recruiting managers, and motivates the complacent "heir apparent." To exchange these advantages for the morale advantages attributed to internal promotion would appear questionable.

Principle of open competition Vacant positions should be opened to the best-qualified persons available, whether inside or outside the enterprise.

A policy of open competition is a better and more honest means of ensuring managerial competence than is obligatory promotion from within. However, it does put the managers who use it under a special obligation. If morale is to be protected in applying an open competition policy, the enterprise must have fair and objective methods of appraising and selecting its people. It should also do everything possible to help them develop so that they can qualify for promotion.

When these requirements are met, it would be expected that every manager making an appointment to a vacancy or a new position would have available a roster of qualified candidates within the entire enterprise. If people know that their qualifications are being considered, if they have been fairly appraised, and if they have been given opportunities for development, they are far less likely to feel a sense of injustice if an opening goes to an outsider. Other things being equal, present employees should be able to compete with outsiders. If a person has the ability for a position, he or she has the considerable advantage of knowing the enterprise and its personnel, history, problems, policies, and objectives. For the superior candidate, the policy of open competition should be a challenge and not a hindrance to advancement.

Responsibility for staffing

While responsibility for staffing should rest with every manager at every level, the ultimate responsibility is with the CEO and the policymaking group of top executives. They have the duty of developing policy, assigning its execution to subordinates, and ensuring its proper application. Policy considerations include decisions about the development of a staffing program, the desirability of promoting from within or securing managers from the outside, the sources of candidates, the selection procedure to follow, the kind of appraisal program to use, the nature of manager and organization development, and the promotion and retirement policies to follow.

Line managers should certainly make use of the services of staff members, usually from the personnel department, in recruiting, selecting, placing, promoting, appraising, and training people. In the final analysis, however, it is the manager’s responsibility to fill positions with the best-qualified persons.

SELECTION: MATCHING THE PERSON WITH THE JOB

Plant, equipment, materials, and people do not make a business any more than airplanes, tanks, ships, and people make an effective military force. One other element is indispensable: effective managers. The quality of managers is one of the most important factors determining the continuing success of any organization. Therefore, it necessarily follows that the selection of managers is one of the most critical steps in the entire process of managing. **Selection** is the process of choosing from among candidates, from within the organization or from the outside, the most suitable person for the current position or for future positions.

Selection Choosing from among candidates, from within or outside the organization, the most suitable person for a position.

THE SYSTEMS APPROACH TO SELECTION: AN OVERVIEW

Since qualified managers are critical to the success of an enterprise, a systematic approach is essential to manager selection and to the assessment of present and future needs for managerial personnel. An overview of the systems approach to selection is illustrated in Figure 11-4. The managerial requirements plan is based on the firm's objectives, forecasts, plans, and strategies. This plan is translated into position requirements and job design, which are matched with individual characteristics such as intelligence, knowledge, skills, attitudes, and experience. To meet organizational requirements, managers recruit, select, place, and promote people. This, of course, must be done with due consideration for the internal environment (e.g., company policies, manager supply and demand, and the organizational climate) and the external environment (laws, regulations, availability of managers). After people have been selected and placed in positions, they must be introduced to the new job. This orientation involves learning about the company, its operation, and its social aspects.

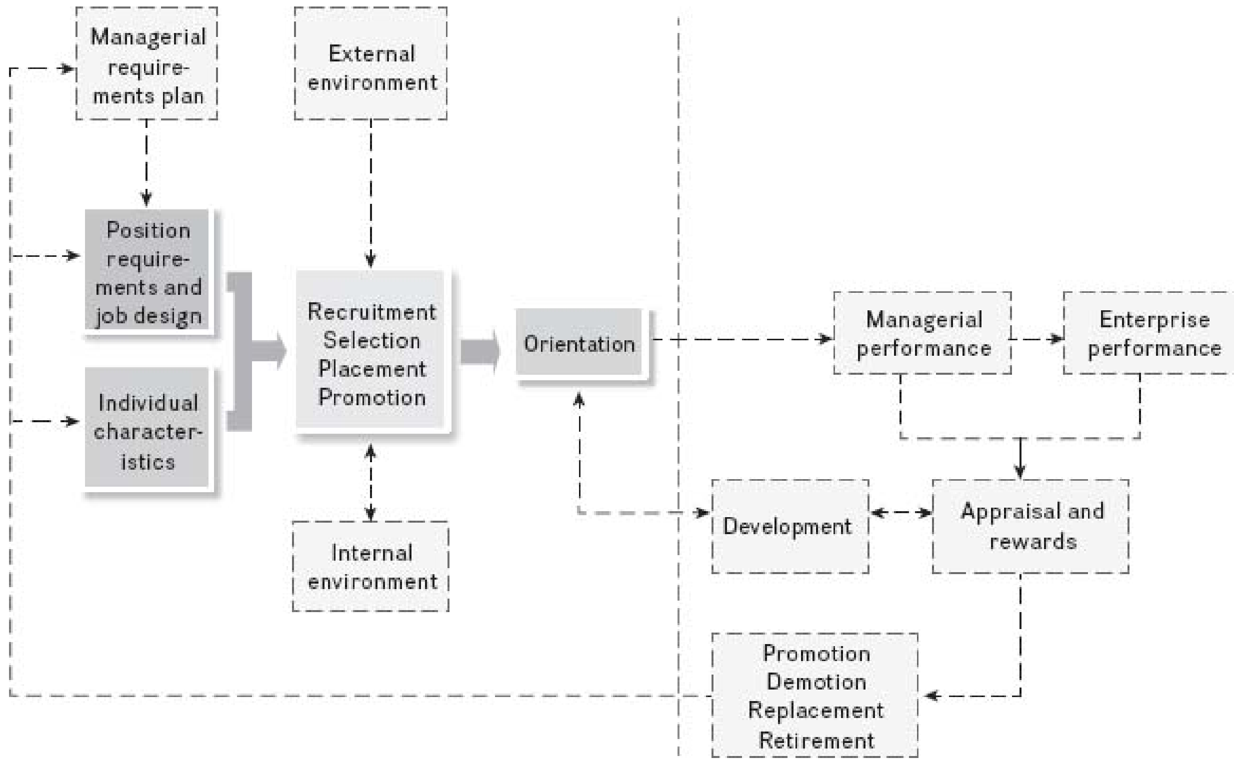


FIGURE 11-4 Systems approach to selection

Variables marked with broken lines are staffing and other activities that are discussed in other chapters.

The newly placed managers then carry out their managerial and nonmanagerial functions (such as marketing), and the resulting managerial performance eventually determines enterprise performance. Subsequently, managerial performance is appraised and managers who meet their performance goals are rewarded (Chapter 12). On the basis of this evaluation, manager and organization development is initiated (Chapter 13). Finally, appraisal may also become the basis for promotion, demotion, replacement, and retirement decisions.

That is the selection model in brief; now, each major variable in the model will receive closer attention.

Innovation Perspective

What Do You Do after you Retire or Get Fired? *11*

Companies such as Dow Chemical encourage former employees to stay in contact with the firm, similar as universities say “keep in touch with the alma mater.” The idea is to develop an alumni social network by using networks such as Twitter, LinkedIn, or Facebook. This may benefit the company as well as the employee. One such benefit is the sharing of knowledge that may also result in reemployment after separation. There is, however, a potential downside. A fired or laid-off employee may use the social network for venting grievances against the company. Social networking, like most technologies, has the potential for benefitting not only the company and its retired employees, but also preventing nondesired spreading of false information.

POSITION REQUIREMENTS AND JOB DESIGN

Selecting a manager effectively requires a clear understanding of the nature and purpose of the position that is to be filled. An objective analysis of position requirements must be made and as far as possible, the job must be designed to meet organizational and individual needs. In addition, positions must be evaluated and compared so that the incumbents can be treated equitably. Among other factors to consider are the skills required, since they vary with the level in the organizational hierarchy, and the personal characteristics desired in managers.

Identifying Job Requirements

In identifying job requirements, firms must answer questions such as: What has to be done in this job? How is it done? What background knowledge, attitudes, and skills are required? Since positions are not static, additional questions may have to be considered: Can the job be done differently? If so, what are the new requirements? Finding answers to these and similar questions requires that the job be analyzed. This can be done through observation, interviews, questionnaires, or even a systems analysis. Thus, a job description based on job analysis usually lists important duties, authority-responsibility, and the relationship to other positions. Many firms also include objectives and expected results in job descriptions.

There is, of course, no foolproof rule for designing managerial jobs. Nevertheless, firms can avoid mistakes by following some guidelines.

Appropriate scope of the job

A job too narrowly defined provides no challenge, no opportunity for growth, and no sense of accomplishment. Consequently, good managers will be bored and dissatisfied. On the other hand, a job must not be so broad that it cannot be effectively handled. The result will be stress, frustration, and loss of control.

Meeting managerial skills required by job design

Generally, the design of the job should start with the tasks to be accomplished. The design is usually broad enough to accommodate people's needs and desires. But some writers on management suggest that it may be necessary to design the job to fit the leadership style of a particular person. It may be especially appropriate to design jobs for exceptional persons in order to utilize their potential. The problem, of course, is that such a position would probably have to be restructured every time a new manager occupies it. The job description, then, must provide a clear idea of the performance requirements for a person in a particular position, but must also allow some flexibility so that the employer can take advantage of individual characteristics and abilities.

Any position description is contingent on the particular job and the organization. For example, in a bureaucratic and fairly stable organizational environment, a position may be described in relatively specific terms. In contrast, in a dynamic organization with an unstable, fast-changing environment, a job description may have to be more general and most likely will have to be reviewed more frequently. A situational approach to job description and job design is called for.

Job Design

People spend a great deal of time on the job, and it is therefore important to design jobs so that individuals feel good about their work. This requires an appropriate job structure in terms of content, function, and relationships.

Design of jobs for individuals and work teams

The focus of job design can be on the individual position or on work groups. First, individual jobs can be enriched by grouping tasks into natural work units. This means putting tasks that are related into one category and assigning an individual to carry out the tasks. A second related approach is to combine several tasks into one job. For example, rather than having the task of assembling a water pump carried out by several persons on the assembly line, workstations can be established with individuals doing the whole task of putting the unit together and even testing it. A third way of enriching the job is to establish direct relationships with the customer or client. Rather than reporting to his or her superior, who would then make the recommendations to top management, a systems analyst may present findings and recommendations directly to the managers involved in the systems change. Fourth, prompt and specific feedback should be built into the system whenever appropriate. In one retail store, for example, salespersons received sales figures for each day and summary figures for each month. Fifth, individual jobs can be enriched through vertical job loading, which means increasing individuals' responsibility for planning, doing, and controlling their job.

Similar arguments can be made for improving the design of jobs for work teams. Jobs should be designed so that groups have a complete task to perform. Moreover, teams may be given a great deal of autonomy in the form of authority and freedom to decide how well the jobs are performed. Within the team, individuals can often be trained so that they can rotate to different jobs within the group. Finally, rewards may be administered on the basis of group performance, which tends to induce cooperation rather than competition among team members.

Factors influencing job design

In designing jobs, the requirements of the enterprise have to be taken into account. But other factors must also be considered in order to realize maximum benefits; they include individual differences, the technology involved, the costs associated with restructuring the jobs, the organization structure, and the internal climate.

People have different needs. Those with unused capabilities and a need for growth and development usually want to have their job enriched and to assume greater responsibility. While some people prefer to work by themselves, others with social needs usually work well in groups. The nature of the task and the technology related to the job must also be considered. While it may be possible for work teams to assemble automobiles, as it was done at a Volvo plant in Sweden, it may not be efficient to use the same work design for the high production runs at General Motors in the United States. The costs of changing to new job designs must also be considered. It makes a great deal of difference whether a plant is newly designed or an old plant has to be redesigned and changed to accommodate new job design concepts.

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www.gm.com

The organization structure must also be taken into account. Individual jobs must fit the overall structure. Autonomous work groups, for example, may work well in a decentralized organization, but they may be inappropriate in a centralized structure. Similarly, the organizational climate influences job design. Groups may function well in an atmosphere that encourages participation, job enrichment, and autonomous work, while they may not fit into an enterprise with an autocratic, top-down approach to managerial leadership.

SKILLS AND PERSONAL CHARACTERISTICS NEEDED IN MANAGERS

To be effective, managers need various skills: technical, human, conceptual, and design. The relative importance of these skills varies according to the level in the organization, as discussed in Chapter 1. In addition, analytical and problem-solving abilities and certain personal characteristics are sought in managers.

Analytical and Problem-Solving Abilities

One of the frequently mentioned skills desired of managers is analytical and problem-solving ability. As Alan Stoneman, former president of Purex Corporation, used to say, “We have no problems here; all are opportunities; all a problem should be is an opportunity.” In other words, managers must be able to identify problems, analyze complex situations, and by solving the problems encountered, exploit the opportunities presented. They must scan the environment and identify, through a rational process, those factors that stand in the way of opportunities. Thus, analytical skills should be used to find the needs of present customers— or potential ones—and then to satisfy those needs with a product or service. It has been amply demonstrated that this opportunity-seeking approach can mean corporate success. For example, Edwin H. Land of Polaroid filled the needs of people who wanted instant photographs. But problem identification and analysis are not enough. Managers also need the will to implement the solutions; they must recognize the emotions, needs, and motivations of the people involved in initiating the required change as well as of those who resist change.

www.purex.com

Personal Characteristics Needed in Managers

In addition to the various skills that effective managers need, several personal characteristics are also important. They are a desire to manage; the ability to communicate with empathy; integrity and honesty; and experience as manager, which is a very significant characteristic.

Desire to manage

The successful manager has a strong desire to manage, to influence others, and to get results through the team efforts of subordinates. To be sure, many people want the privileges of managerial positions, which include high status and salary, but they lack the basic motivation to achieve results by creating an environment in which people work together toward common aims. The desire to manage requires effort, time, energy, and usually long hours of work.

Communication skills and empathy

Another important characteristic of managers is the ability to communicate through written reports, letters, speeches, and discussions. Communication demands clarity, but even more, it demands empathy. This is the ability to understand the feelings of another person and to deal with the emotional aspects of communication. Communication skills are important for effective **intragroup communication**, that is, communication with people in the same organizational unit. As one moves up in the organization, however, **intergroup communication** becomes increasingly important. This is communication not only with other departments, but also with groups outside the enterprise: customers, suppliers, governments, the community, and the stockholders in business enterprises.

Intragroup communication Communication with people in the same organizational unit.

Intergroup communication Communication with other departments as well as with groups outside the enterprise.

Integrity and honesty

Managers must be morally sound and worthy of trust. Integrity in managers includes honesty in money matters and in dealing with others, adherence to the full truth, strength of character, and behavior in accordance with ethical standards.

Many of these qualities and others have been cited by top executives of major companies. For example, Henry Ford II, former chairman of Ford Motor Company, considers as appealing qualities honesty, candor, and openness.

www.ford.com

Past performance as manager

Another very important characteristic for selection is past performance as a manager. It is probably the most reliable forecast of a manager's future performance. Of course, an assessment of managerial experience is not possible in selecting first line supervisors from the ranks since they have not had such experience. But past accomplishments are important considerations in the selection of middle- and upper-level managers.

MATCHING QUALIFICATIONS WITH POSITION REQUIREMENTS

After the positions are identified, managers are obtained through recruitment, selection, placement, and promotion (Figure 11-4). There are basically two sources of managerial personnel: (1) promotion or transfer of people from within the enterprise and (2) hiring from the outside. For internal promotions, a computerized information system may help identify qualified candidates. It can be used in conjunction with a comprehensive human resource plan. Specifically, it can be utilized to anticipate staff requirements, new openings, attritions, development needs, and career planning.

There are several external sources available and the enterprise may use different channels to find qualified managers. Many employment agencies—public and private—and executive recruiters (sometimes called headhunters) locate suitable candidates for positions. Other sources of managers are professional associations, educational institutions, referrals from people within the enterprise, and unsolicited applications from persons interested in the firm.

Recruitment of Managers

Recruiting involves attracting candidates to fill the positions in the organization structure. Before recruitment begins, the position's requirements, which should relate directly to the task, must be clearly identified to facilitate recruitment from the outside. Enterprises with a favorable public image find it easier to attract qualified candidates. A company such as Sony has a well-recognized image, while small firms—which frequently offer excellent growth and development opportunities—may have to make great efforts to communicate to applicants the kind of business they do and the opportunities they offer.

Recruiting Attracting candidates to fill positions in the organization structure.

International Perspective

Where Do Chinese Companies Recruit?[12]

As Chinese companies become more globally oriented, many now hire Western managers. Lenovo, the biggest computer maker in China, hired Bill Amelio as CEO. Mr. Amelio was the head of Dell Computer's Asia-Pacific region. Similarly, Phil Murtaugh migrated from General Motors to Shanghai Automotive Industry Corp (SAIC), China's largest car company that may produce cars for export. As can be expected, some local Chinese firms have reservations about such practices, but increasingly top jobs in China became attractive for Western executives. Still, for those executives such a switch is risky because they are not familiar with the detailed knowledge of Chinese culture. A number of

Chinese companies now hire Chinese executives with western experience who have the advantage of being familiar with the Chinese environment.

There is also a great need for middle managers in China because the Cultural Revolution hindered their education. As Chinese companies become globally oriented, the need for top as well as middle managers is increasing, which opens attractive opportunities for some westerners.

Selection, Placement, and Promotion

Selecting a manager is choosing from among the candidates the one who best meets the position requirements. Since the selection may be for a specific job opening or for future managerial requirements, there are two approaches to filling organizational positions. In the ***selection approach***, applicants are sought to fill a position with rather specific requirements; while in the ***placement approach***, the strengths and weaknesses of the individual are evaluated and a suitable position is found or even designed.

Two approaches to filling positions: selection and placement.

Promotion is a move within the organization to a higher position that has greater responsibilities and requires more advanced skills. It usually involves a raise in status and in pay. The various facets of selection generally apply also to promotion, which may be a reward for outstanding performance or a result of the firm's desire to better utilize an individual's skills and abilities. Promotions may be a reward for past performance, but only if there is evidence of potential competency; otherwise, they may be promoted to a level at which they are incompetent.

The Peter Principle

Errors in selection are possible, perhaps even common. According to Laurence J. Peter and Raymond Hall, authors of *The Peter Principle*, managers tend to be promoted to the level of their incompetence.[13] Specifically, if a manager succeeds in a position, this very success may lead to promotion to a higher position, often requiring skills that the person does not possess. Such a promotion may involve work that is over the manager's head. While the possibility of individual growth must not be overlooked, the Peter Principle can serve as a warning not to take the selection and promotion process lightly.

SELECTION PROCESS, TECHNIQUES, AND INSTRUMENTS

This section presents an overview of the selection process, followed by a discussion of a number of selection instruments and techniques, including interviews, tests, and the assessment center approach. For good selection, the information about the applicant should be both valid and reliable. When people ask if data are valid, they are asking if the data are measuring what they are supposed to be measuring. In selection, **validity** is the degree to which the data predict the candidate's success as a manager. The information should also have a high degree of **reliability**, a term that refers to the accuracy and consistency of the measurement. For example, a reliable test, if repeated under the same conditions, would give essentially the same results.

Validity The degree to which the data predict the candidate's success as a manager.

Reliability The accuracy and consistency of the measurement.

The Selection Process

There are some variations of the specific steps in the selection process. For example, the interview of a candidate for a first line supervisory position may be relatively simple when compared with the rigorous interviews for a top-level executive. Nevertheless, the following broad outline is indicative of the typical process.

First, the selection criteria are established, usually on the basis of current and sometimes future job requirements. These criteria include education, knowledge, skills, and experience. The candidate is then requested to complete an application form (this step may be omitted if the candidate is from within the organization). A screening interview follows to identify the more promising candidates. Additional information may be obtained by testing the candidate's qualifications for the position. Formal interviews are then conducted by the manager, his or her superior, and other persons within the organization. The information provided by the candidate is checked and verified. A physical examination may be required. Finally, on the basis of the information gathered, the candidate is either offered the job or informed that he or she has not been selected for the position. Let us examine some parts of the selection process in greater detail.

Interviews

Virtually every manager hired or promoted by a company is interviewed by one or more people. Despite its general use, the interview is considerably distrusted as a reliable and valid means for selecting managers. Different interviewers may weigh or interpret the gathered information differently. Interviewers often do not ask the right questions. They may be influenced by the interviewee's general appearance, which may have little bearing on job performance. They also frequently make up their minds early in the interview, before they have all the information necessary to make a fair judgment.

Several techniques can be used to improve the interviewing process and overcome some of these weaknesses. First, interviewers should be trained so that they know what to look for. For example, in interviewing people from within the enterprise, they should analyze and discuss past records. They should study the results achieved as well as the way key managerial activities were performed. Chapter 12, on performance appraisal, shows in greater detail how this can be done. When selecting managers from outside the firm, these data are more difficult to obtain, and interviewers usually get them by checking with the listed references.

Second, interviewers should be prepared to ask the right questions. There are structured, semi-structured, and unstructured interviews. In an *unstructured* interview, the interviewer may say something like “Tell me about your last job.” In the *semi-structured* interview, the interviewer follows an interview guide but may also ask other questions. In a *structured* interview, the interviewer asks a set of prepared questions.

A third way to improve selection is to conduct multiple interviews utilizing different interviewers. Thus, several people can compare their evaluations and perceptions. However, not all interviewers should vote in selecting a candidate; rather, their role is to provide additional information for the manager who will be responsible for the final decision.

Fourth, the interview is just one aspect of the selection process. It should be supplemented by data from the application form, the results of tests, and the information obtained from persons listed as references. Reference checks and letters of recommendation may be necessary to verify the information given by the applicant. For a reference to be useful, the person must know the applicant well and give a truthful and complete assessment of the applicant. Many people are reluctant to provide information that may jeopardize an applicant’s chances; so, the applicant’s strong points are often overemphasized while shortcomings may be omitted or glossed over. In the United States, the Privacy Act of 1974 and related legislation and judicial rulings have made it even more difficult to obtain objective references. Under the Privacy Act, the applicant has a legal right to inspect letters of reference, unless this right is waived. This is one of the reasons that teachers are sometimes reluctant to make objective and accurate job referrals for their students.

Tests

The primary aim of testing is to obtain data about applicants that help predict their probable success as managers. Some of the benefits from testing include finding the best person for the job, obtaining a high degree of job satisfaction for the applicant, and reducing turnover. Some of the commonly used tests can be classified as:

- *Intelligence tests* are designed to measure mental capacity and to test memory, speed of thought, and ability to see relationships in complex problem situations.
- *Proficiency and aptitude tests* are constructed to discover interests, existing skills, and potential for acquiring skills.
- *Vocational tests* are designed to indicate a candidate's most suitable occupation or the areas in which the candidate's interests match the interests of people working in those areas.
- *Personality tests* are designed to reveal a candidate's personal characteristics and the way the candidate may interact with others, thereby giving a measure of leadership potential.

Tests have a number of limitations, however. First, competent industrial psychologists agree that tests are not accurate enough to be used as the sole measure of candidates' characteristics but must be interpreted in light of each individual's entire history. Second, the test user must know what tests do and what their limitations are. One of the major limitations is uncertainty about whether tests are really applicable; even psychologists are not highly confident that present-day tests are effective in measuring managerial abilities and potentials. Third, before any test is widely used, it should be tried out, if possible on existing personnel, to see whether it is valid for employees whose managerial abilities are already known. Fourth, it is also important that tests be administered and interpreted by experts in the field. Finally, tests should not discriminate unfairly and should be consistent with laws and government guidelines.

Assessment Centers

The **assessment center** is not a location but a technique for selecting and promoting managers. This approach may be used in combination with training. Assessment centers were first used for selecting and promoting lower-level supervisors, but now they are applied to middle- level managers as well. They seem, however, to be inappropriate for top executives. The assessment center technique is not new. It was used by the German and British military in World War II and the American Office of Strategic Services. But its first corporate use in the United States is generally attributed to the American Telephone and Telegraph Company in the 1950s.

Assessment center A technique for selecting and promoting managers.

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Intended to measure how a potential manager will act in typical managerial situations, the usual center approach is to have candidates take part in a series of exercises. During this period, they are observed and assessed by psychologists or experienced managers. A typical assessment center will have the candidates do the following: take various psychological tests; engage in management games in small groups; engage in "in-basket" exercises, in which they are asked to handle a variety of matters that they might face in a managerial job; participate in a leaderless group discussion of some problem; give a brief oral presentation on a particular topic or theme, usually recommending a course of desirable action to a mythical superior; and engage in various other exercises, such as preparing a written report.

During these exercises, the candidates are observed by their evaluators, who also interview them from time to time. At the end of the assessment period, the assessors summarize their own appraisal of each candidate's performance, then they compare their evaluations, come to conclusions concerning each candidate's managerial potential, and write a summary report on each candidate. These reports are made available to appointing managers for their guidance. They are also often used as guides for management development. In many cases, candidates are given feedback on their evaluation; in other cases, feedback is given only when candidates request it. Sometimes, the overall evaluation as to promotability remains confidential, even though candidates may be informed by assessors about their performance in the various exercises.

Evidence of the usefulness of the assessment center approach, although not conclusive, is encouraging. On the other hand, there is controversy over to whom, by whom, and under what circumstances this and other tests should be administered and as to who should receive the test results.

Assessment centers do present some problems. First, they are costly in terms of time, especially since many effective programs extend over a five-day period. Second, training assessors is a problem, particularly in companies who believe that, with some justification, the best assessors are likely to be experienced line managers rather than trained psychologists. Third, although a number of different exercises are used to cover the kinds of things a manager does, questions have been raised as to whether these exercises are the best criteria for evaluation. An even greater problem exists in determining which evaluation measures should be applied to each exercise. Most assessment centers, being highly oriented to individual and interpersonal behavior under various circumstances, may be overlooking the most important element in selecting managers, especially those about to enter the managerial ranks for the first time. That element is motivation—whether or not a person truly wants to be a manager. To be so motivated, candidates must know what managing is, what it involves, and what is required to be a successful manager. Obviously, motivation is a difficult quality to evaluate. However, by making clear to a candidate what managing involves and requires and then asking the candidate to think this over, the interviewer can give the candidate a good basis on which to determine whether he or she really wants to be a manager.

Limitations of the Selection Process

The diversity of selection approaches and tests indicates that there is no one perfect way to select managers. Experience has shown that even carefully chosen selection criteria are still imperfect in predicting performance. Furthermore, there is a distinction between what persons can do—that is, their ability to perform—and what they will do, which relates to motivation. The latter is a function of the individual and the environment. For example, a person’s needs may be different at various times. The organizational environment also changes. The climate of an enterprise may change from one that encourages initiative to one that restricts it because a new top management introduces a different managerial philosophy. Therefore, selection techniques and instruments are not a sure way to predict what people will do, even though they may have the ability to do it.

Testing itself, especially psychological testing, has limitations. Specifically, the seeking of certain information may be considered an invasion of privacy. In addition, it has been charged that some tests unfairly discriminate against women or members of minority groups. These complex issues are not easily resolved, yet they cannot be ignored when an enterprise is selecting managers.

Still other concerns in selection and hiring are the time and costs involved, including advertising, agency fees, tests, interviews, reference checks, medical examinations, relocation, orientation, and startup time required for the new manager to get acquainted with the job. When recruiting costs are recognized, it becomes evident that turnover can be very expensive to an enterprise.

Innovation Perspective[14]

HRM in India and Other Countries

Outsourcing has become very popular with globalization. India is often the favorite place. The benefits for outsourcing are obtaining a lower-cost service, which may increase the competitive advantage of the firm doing the outsourcing. But outsourcing is not without risks because cultural differences may result in some difficulty in communication, although English is widely spoken. Other considerations are the differences in time zones that may hinder, for example, providing assistance to Dell customers in the United States. On the other hand, communication through the Internet is rather inexpensive. But India has no monopoly on the information technology and outsourcing. In Asia, the workforce in the Philippines also offers IT services and China is in the process of going into the IT business.

These developments have important implication for staffing and leading. Human resource managers have now a greater and more diverse pool for selecting suitable persons for the tasks. Traditional tools for selecting the right candidate may not be appropriate for candidates in other countries. Moreover, training and performance evaluation may have to be adapted to the local environment. Compensation, motivation, local needs, and requirements as well as expectations differ among countries. Companies need to adapt to the local situation. This is true for India as well as for other countries.

ORIENTING AND SOCIALIZING NEW EMPLOYEES

The selection of the best person for the job is only the first step in building an effective management team. Even companies that make great efforts in the recruitment and selection process often ignore the needs of new managers after they have been hired. Yet, the first few days and weeks can be crucial for integrating the new person into the organization.

Orientation involves the introduction of new employees to the enterprise—its functions, tasks, and people. Large firms usually have a formal orientation program that explains these features of the company: history, products and services, general policies and practices, organization (divisions, departments, and geographic locations), benefits (insurance, retirement, vacations), and requirements for confidentiality and secrecy (especially with regard to defense contracts) as well as safety and other regulations. These may be further described in detail in a company booklet, but the orientation meeting provides new employees with an opportunity to ask questions. Although staff from the personnel department usually conducts these formal programs, the primary responsibility for orienting the new manager still rests with the superior.

Orientation The introduction of new employees to the enterprise– its functions, tasks, and people.

Leadership Perspective

Leaders Create an Environment that People Enjoy[15]

In the new millennium, companies are fiercely competing for talent in a very competitive job market. Losing a valuable employee may cost a company $50,000-$100,000. How, then, can a company retain its intellectual capital?

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Leaders such as Herb Kelleher at Southwest Airlines and Jack Welch at General Electric have done much to inspire their employees by providing an environment with challenging work and opportunities for personal and professional growth. Companies have pursued various strategies to retain employees. Firms with a good reputation, such as Southwest Airlines and General Electric, can highlight to their employees the competitive advantage of their firm and the opportunities in a growing organization. Companies in a market leadership position also have an advantage in retaining employees, as they can point out that leaving the company may be a step down. Other firms have created a feeling of community and family in their organization. Employees also like the flexibility of gaining different kinds of experience in various parts of the company. Empowerment through broad delegation gives employees decision-making authority and a sense of responsibility. Cisco Systems constantly makes its employees aware that they are welcomed. General Electric makes heavy investments in the best people through training and mentoring. Southwest Airlines pays much attention to finding the right people during the selection process by hiring people who fit the organization culture.

While companies face serious challenges in recruiting and retaining employees, people preparing for a career in management or as a staff person find in this situation a great opportunity.

There is another and perhaps even more important aspect of orientation: the socialization of new managers. **Organizational socialization** is defined in several different ways. A global view includes three aspects: acquisition of work skills and abilities, adoption of appropriate role behaviors, and adjustment to the norms and values of the work group. So, in addition to meeting the specific requirements of the job, new managers will usually encounter new values, new personal relationships, and new modes of behavior. They do not know whom they can ask for advice, they do not know how the organization works, and they have a fear of failing in the new job. All this uncertainty can cause a great deal of anxiety for a new employee, especially a management trainee. Because the initial experience in an enterprise can be very important for future management behavior, the first contact of trainees should be with the best superiors in the enterprise, people who can serve as models for future behavior.

Organizational socialization Acquisition of work skills and abilities, adoption of appropriate role behaviors, and adjustment to the norms and values of the work group.

MANAGING HUMAN RESOURCES WHILE MOVING TOWARD 2020[16]

The future is difficult to predict; yet, managers do have to make decisions now to prepare for the future. The Economist Intelligence Unit surveyed some 1,650 executives from around the world asking how they see changes while moving toward the year 2020. The areas which have the greatest potential for improving productivity are managing knowledge, providing services and support to customers, improving operations and production processes, developing businesses and strategies, managing marketing and sales activities, and managing human resources and training as well as other areas. These views of executives do have important implications for human resource management.

The contributions of knowledge workers may be most critical for gaining a competitive advantage. Moreover, collaboration within the organization as well as with the outside will be very important. This, of course, requires people with good interpersonal relationships. They need to be able to operate in different cultural environments and communicate well. The staffing functions of recruitment, selection, training, and development will play important roles in preparing for the future. Similarly, effective leading, motivation, and communication (functions discussed in Part 5) will be essential to compete in the global environment.

Innovation Perspective

The Future of Work[17]

Globalization and technology are changing our jobs. It is, of course, difficult to predict the future; but, some of the trends can already be seen in companies. The new CEO may be a global networker. Although organization structure will still be needed, the cubical culture will be reduced or eliminated. This means the office boundaries will be removed and offices and office desks will become less important or even disappear. The work force will be even more multicultural than it is now. Wellness programs will aim to keep the workers healthy and employees may choose from a variety of benefits ("cafeteria" approach). Projects will be multidisciplinary with a scalable workforce to adjust to the work demands. In some ways, the future is already here.

SUMMARY

Staffing means filling positions in the organization structure. It involves identifying workforce requirements, inventorying the people available, and recruiting, selecting, placing, promoting, appraising, planning the careers of, compensating, and training people.

In the systems approach to staffing, enterprise and organization plans become important inputs for staffing tasks. The number and quality of managers required to carry out crucial tasks depend on many different factors. One major step in staffing is to determine the people available by making a management inventory, which can be done in the form of an inventory chart.

Staffing does not take place in a vacuum; one must consider many situational factors, both internal and external. Staffing requires adherence to equal employment opportunity laws so that practices do not discriminate, for example, against minorities or women. Also, one must evaluate the pros and cons of promoting people from within the organization or selecting people from the outside.

In the systems model for selection, the comprehensive managerial requirements plan is the basis for position requirements. In designing jobs, the enterprise must see that the job has an appropriate scope, is challenging, and reflects required skills. The job structure must be appropriate in terms of content, function, and relationships. Jobs can be designed for individuals or work teams. The importance of technical, human, conceptual, and design skills varies with the level in the organizational hierarchy. The position requirements have to be matched with the various skills and personal characteristics of individuals. The matching is important in recruitment, selection, placement, and promotion.

Errors in selection can lead to actualization of the Peter Principle, which states that managers tend to be promoted to the level of their incompetence. Although the advice of several people should be sought, the selection decision should generally rest with the immediate superior of the candidate for the position.

The selection process may include interviews, various tests, and the use of assessment centers. To avoid dissatisfaction and employee turnover, companies must ensure that new employees are introduced to and integrated with other persons in the organization.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Staffing
- Systems approach to human resource management
- Management inventory
- Situational factors affecting staffing
- Equal employment opportunity
- Women in management
- Diversity in the workplace
- Staffing in the international environment
- Promotion from within
- Policy of open competition
- Systems approach to selection
- Position and job requirements
- Job design
- Recruitment
- Selection
- Placement
- Promotion
- Peter Principle
- Validity and reliability
- Selection process
- Interview
- Kinds of tests
- Assessment center
- Orientation and socialization
- The future of managing human resources

FOR DISCUSSION

1. Why is the function of staffing seldom approached logically? Briefly describe the systems approach to staffing. How is staffing related to other managerial functions and activities?
2. List and evaluate external factors affecting staffing. Which ones are most critical today? Explain.
3. What are the dangers and difficulties in applying a policy of promotion from within? What is meant by a policy of open competition? Do you favor such a policy? Why or why not?
4. What is the systems approach to selection of managers? Why is it called a systems approach? How does it differ from other approaches?
5. What are some of the factors that are important in designing individual jobs and jobs for work teams? Which ones seem most important to you? Why?
6. The Peter Principle has been widely quoted in management circles. What do you think of it? Do you think that it could ever apply to you? Does it mean that all chief executives are incompetent? Explain.
7. What is an assessment center? How does it work? Would you like to participate in such a center? Why or why not?

EXERCISES/ACTION STEPS

1. Select an organization that you know and evaluate the effectiveness of its recruitment and selection of people. How systematically are these and other staffing activities carried out?
2. Go to the library and research the background of successful CEOs. You may begin by looking at *Fortune* magazine or reading the biography of a CEO. What makes the CEOs successful?

INTERNET RESEARCH

1. Use one of the popular search engines to search for "workforce.com." What are some of the current topics human resource managers are concerned about?
2. What does equal employment opportunity mean? Search the Web, then select a topic and present it to the class.

International Case

Recruiting Talents at Infosys.[18]

Infosys, founded in 1981 in Pune by N. R. Narayana Murthy and his colleagues, is one of the biggest IT companies in India. Two years later, the firm moved its headquarters to Bangalore. In 1987, Infosys began its international expansion by opening its first sales office in Boston. By 2008, the company with more than 90,000 employees (mostly professionals) expanded its operation to more than 30 offices worldwide. How does one recruit competent people for this global organization?

Operating in the software industry, Infosys provides services to many businesses in a variety of industry segments, including banking, communication media, entertainment, manufacturing, energy and utilities, retail businesses, consumer products and services, and many others.

In 1996, the company created a foundation headed by Mrs. Sudha Murthy, which works in a variety of areas such as healthcare, arts, culture, social activities, and education. Some of the initiatives include a program called Academic Entente that involves activities such as arranging academic conferences, research collaboration, a global internship program, and study tours to the company's development center. This initiative provides the link to academic institutions. The global internship program also provides opportunities for recruiting undergraduates, graduates as well as PhD students. The disciplines are not restricted to business students, but also include liberal arts majors. Such programs aim at getting young people interested in information technology and computer science.

The $120 million Global Education Center in Mysore, about 90 miles from Bangalore, is one of the largest company training centers. It has been said that it is more difficult to be admitted to the Infosys training program than to get into Harvard. Only 1 percent of applicants get invited to the campus, which is like a modern university; it also includes a large gym, a swimming pool, a bowling alley, and even a hair salon. But the campus is run by strict rules, such as alcohol prohibition. Yet, the “freshers” as the new recruits are called do not complain. Indeed, it is considered a dream come true to be invited to the program which focuses on technical skills, including communication and team building classes. The participants come from many countries and the aim is to train some 10,000 employees at a time.

Questions

1. People are the key to success of enterprises. Address the recruitment efforts for finding and recruiting talents at Infosys.
2. Would you be interested in working for Infosys operating in many diverse businesses or would you prefer to become an entrepreneur working for a relative or establishing your own business?
3. List the advantages and disadvantages working for a company like Infosys or being an entrepreneur.

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CHAPTER 12

Performance Appraisal and Career Strategy

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Recognize the importance of effectively appraising managers
2. Identify the qualities that should be measured in appraising managers
3. Present a system of managerial appraisal based on evaluating performance against verifiable objectives and performance as a manager
4. Describe the team approach to evaluation
5. Recognize the rewards and stress of managing
6. Identify important aspects of career planning
7. Write your own professional biography
8. Write your own 10-year professional development plan

Managerial appraisal has sometimes been referred to as the Achilles' heel of managerial staffing, but it is a major key to managing itself. It is the basis for determining who is promotable to a higher position. It is also important to management development because it is difficult to determine whether development efforts are aimed in the right direction if a manager's strengths and weaknesses are not known. Appraisal is or should be an integral part of a system of managing. Knowing how well a manager plans, organizes, staffs, leads, and controls is really the only way to ensure that those occupying managerial positions are actually managing effectively. If a business, a government agency, a charitable organization, or even a university is to reach its goals effectively and efficiently, ways of accurately measuring management performance must be found and implemented.

There are other reasons why effective managerial appraisal is important. One of the most compelling in the United States arises from the provisions of Title VII of the Civil Rights Act of 1964 (amended in 1972) and the regulations of the Equal Employment Opportunity Commission and the Office of Federal Contract Compliance. These agencies have been highly critical of many appraisal programs, finding that they often result in discrimination, particularly in areas of race, age, and sex. Courts have supported the federal agencies in their insistence that, to be acceptable, an appraisal program must be reliable and valid. That these agencies set rigorous standards is apparent.

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Effective performance appraisal should also recognize the legitimate desire of employees for progress in their professions. One way to integrate organizational demands and individual needs is through career management, which can be a part of performance appraisal, as this chapter will explain.

CHOOSING APPRAISAL CRITERIA

The appraisal should measure performance in accomplishing goals and plans as well as performance as a manager. No one wants a person in a managerial role who appears to do everything right as a manager but who cannot turn in a good record of profit-making, marketing, controllership, or whatever the area of responsibility may be. Nor should one be satisfied to have a "performer" in a managerial position who cannot operate effectively as a manager. Some star performers may have succeeded by chance and not through effective managing.

Performance in Accomplishing Goals

In assessing performance, systems of appraising against verifiable preselected goals have extraordinary value. Given consistent, integrated, and understood planning designed to reach specific objectives, probably the best criteria of managerial performance relate to the ability to set goals intelligently, to plan programs that will accomplish those goals, and to succeed in achieving them. Those who have operated under some variation of this system often claim that these criteria are inadequate and that elements of luck or other factors beyond the manager's control are not excluded when arriving at any appraisal. In too many cases, managers who achieve results owing to sheer luck are promoted, and those who do not achieve the expected results because of factors beyond their control are blamed for failures. Thus, appraisal against verifiable objectives is, by itself, insufficient.

The system of measuring performance against preestablished objectives should be supplemented by an appraisal of the manager as a manager.

Performance as Managers

The system of measuring performance against preestablished objectives should be supplemented by an appraisal of the manager as a manager. Managers at any level also undertake nonmanagerial duties, and these cannot be overlooked. However, the primary purpose for which managers are hired and against which they should be measured is their performance as managers, which means they should be appraised on the basis of how well they understand and undertake the managerial functions of planning, organizing, staffing, leading, and controlling. The standards to use in this area are the fundamentals of management; but, first, appraising against performance objectives should be examined.

APPRAISING MANAGERS AGAINST VERIFIABLE OBJECTIVES

One widely used approach to managerial appraisal is the system of evaluating managerial performance against the setting and accomplishing verifiable objectives. As was noted in Chapter 4, a network of meaningful and attainable objectives is basic to effective managing. This is simple logic, since people cannot be expected to accomplish a task with effectiveness or efficiency unless they know what the end points of their efforts should be. Nor can any organized enterprise be expected to do so.

A network of meaningful and attainable objectives is basic to effective managing.

The Appraisal Process

Once a program of managing by verifiable objectives is operating, appraisal is a fairly easy step. Superiors determine how well managers set objectives and how well they have performed against them. In cases where appraisal by results has failed or has been disillusioning, the principal reason is that managing by objectives was seen only as an appraisal technique. The system is not likely to work if used only for this purpose. Management by objectives must be a way of managing and a way of planning as well as the key to organizing, staffing, leading, and controlling. When this is the case, appraisal boils down to whether managers have established adequate and reasonably attainable objectives and how they have performed against them in a certain period. Look at the systems approach to management by objectives in Figure 4-4 in Chapter 4. As the figure shows, appraising is merely a last step in the entire process.

There are other questions to consider, too. Were the goals adequate? Did they call for “stretched” (high but reasonable) performance? These questions can be answered only through the judgment and experience of a person’s superior, although this judgment can become sharper with time and experience. It may be even more objective if the superior can use the goals of other managers in similar positions for comparison.

In assessing the accomplishment of goals, the evaluator must take into account such considerations as to whether the goals were reasonably attainable in the first place, whether factors beyond a person’s control unduly helped or hindered the person in accomplishing goals, and what the reasons for the results were. The reviewer should also note whether an individual continued to operate against obsolete goals when situations changed and revised goals were called for.

Different Views on Appraisal Issues

People hold different views on performance appraisal issues. We will focus on three of them.

Subjective versus objective evaluation

There are those who still maintain that subjective rating of subordinates is sufficient. After all, it is argued, managerial performance is difficult to evaluate. On the other side of the argument are those who maintain that an appraisal must be completely objective and only numbers count; either a person achieves the previously set objective or not.

Appraisal should focus on results, but one must be careful to avoid the “numbers game.”

Appraisal should focus on results, but one must be careful to avoid the “numbers game.” Figures can be manipulated to suit the individual, thus defeating the purpose of appraisal. Also, pursuing a limited number of verifiable criteria may ignore other not formally stated objectives, as one cannot set objectives for all tasks. It is therefore not only important to look at performance figures, but also at the causes of positive or negative deviations from standards, although this may involve some subjective judgment.

Judging versus self-appraisal

There is the view that managers have the authority vested in their position, and therefore they should be the sole judge in assessing the performance of their subordinates. But many managers dislike being placed in the role of a judge, especially when they are asked to evaluate subordinates on personality characteristics. Similarly, employees feel uncomfortable being judged on factors that have questionable relationships to the tasks they are doing. The other view holds that people should be asked to appraise themselves. It is realized that some subordinates may be harsher on themselves than their superior would be; but other individuals may rate themselves unreasonably high, especially if the rating influences their salary.

The management by objectives philosophy places emphasis on self-control and self-direction.

The management by objectives philosophy places emphasis on self-control and self-direction. But this presupposes that verifiable objectives have been previously set (primarily by the subordinate in conjunction with the superior), against which performance can be measured. Indeed, if this is done well, appraising is relatively easy. There should be no surprises during the appraisal meeting: subordinates know what they want to achieve and superiors know what contributions they can expect from their subordinates. Besides the comprehensive appraisal, periodic and constant monitoring of performance can uncover deviations from standards. Generally, then, subordinates should have an opportunity to exercise self-control, but the superior still has the veto power in case of controversy about the objective that is the basis for performance appraisal.

Assessing past performance versus future development

Some managers see the purpose of appraisal primarily as assessing past performance, but others focus on the developmental aspects of appraisal. The improvement orientation in the latter is toward the future.[1]

One should learn from past mistakes and translate these insights into development plans for the future.

With the emphasis on self-appraisal and responsible self-direction, the judgmental aspect in appraisal is considerably reduced. To be sure, one should learn from past mistakes, but one should use these insights for translating them into development plans for the future. Clearly, appraisal can be an excellent opportunity to emphasize a person's strengths and to prepare action plans for overcoming weaknesses, discussed in the career planning section later in this chapter.

Three Kinds of Reviews

The simplified model of performance appraisal shown in Figure 12-1 indicates three kinds of appraisals: (1) a comprehensive review, (2) progress or periodic reviews, and (3) continuous monitoring.

The formal comprehensive appraisal should be conducted at least once a year, with discussions taking place more frequently. It should be supplemented by frequent progress or periodic reviews as well as continuous monitoring.

There is general agreement that a ***formal comprehensive appraisal*** should be conducted at least once a year, but some people suggest that such discussions should take place more frequently. Some enterprises do all the reviews within a short period of time each year, while others schedule the appraisals throughout the year, often at the employment anniversary. A case could be made against any rigid schedule of annual performance reviews. Instead, it may be argued with good reason that performance should be reviewed, for example, after the completion of a major project. Obviously, no universally applicable suggestion can be made about the time frame for the formal comprehensive review. It depends on the nature of the task, past company practices, and other situational factors. Once, twice, or even three times may be appropriate for a particular organization or a person who is new to a job.

What is important is that the formal comprehensive review should be supplemented by frequent ***progress or periodic reviews.*** These reviews can be short and relatively informal, but they help identify problems or barriers that hinder effective performance. They also keep communication open between the superior and the subordinates. Furthermore, priorities can be rearranged and objectives can be renegotiated if warranted by changed situations. It certainly is inappropriate to pursue obsolete or even unsuitable objectives that were agreed on in an environment of uncertainties.

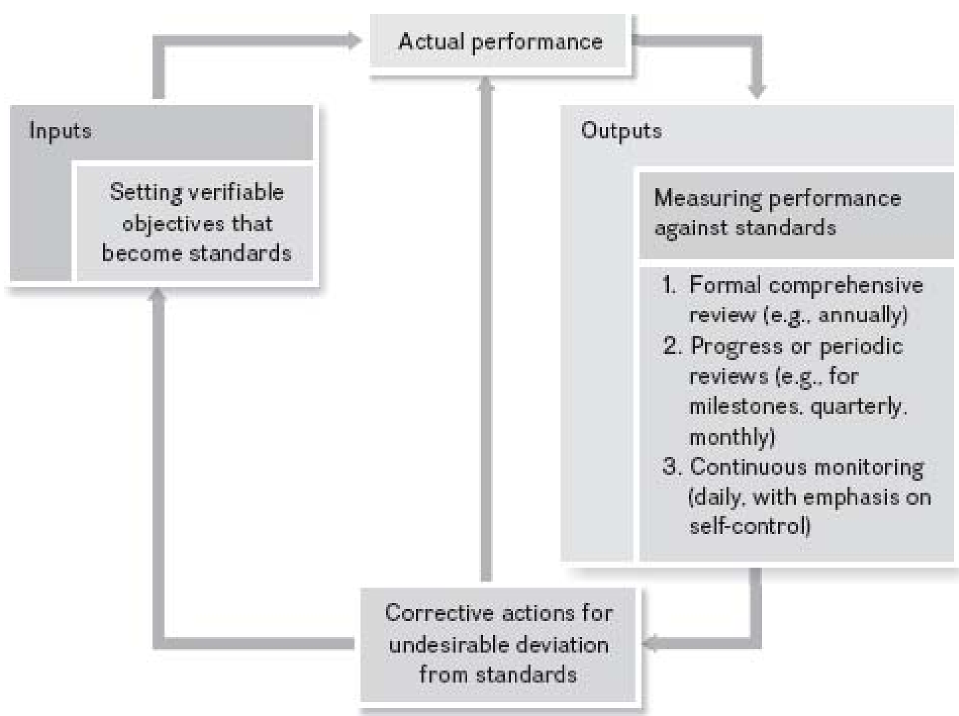

FIGURE 12-1 The appraisal process

Redrawn from Heinz Weihrich, *Management Excellence: Productivity through MBO* (New York: McGraw-Hill, 1985), p. 125.

Finally, there is ***continuous monitoring*** of performance. With this system, when performance deviates from plans, one does not have to wait for the next periodic review to correct it. The superior and the subordinate discuss the situation immediately so that corrective actions can be taken at once in order to prevent a small deviation from developing into a major problem.

Strengths of Appraisal against Verifiable Objectives

The strengths of appraising against accomplishment of objectives are almost the same as those of managing by objectives. Both are part of the same process, both are basic to effective managing, and both are means of improving the quality of managing.

In the area of appraising, there are other special and important strengths. Appraising on the basis of performance against verifiable objectives has the great advantage of being operational. Appraisals are not apart from the job that managers do but are a review of what they actually did as managers.

There are always questions of how well a person did; of whether goals were missed or accomplished, and for what reasons; and of how much in the way of goal attainment should be expected. But information about what a person has done, measured against what that individual agreed was a reasonable target, is available. This information furnishes strong presumptions of objectivity and reduces the element of pure judgment in appraisal. Besides, the appraisal can be carried on in an atmosphere in which superiors work cooperatively with subordinates rather than sitting in judgment of them.

Entrepreneurial Perspective

Interview with Shomit Ghose, Venture Capitalist Partner with Onset Ventures, on

Evaluating Managers of Venture-Backed Portfolio Firms[2]

Shomit Ghose is a venture capitalist partner with Onset Ventures in Menlo Park, California. Onset Ventures, with over $1 billion under management and eight successful funds launched since its founding in 1984, has a proven record of successful investment in early-stage information, communication, and medical technology firms. Onset is well known for actively collaborating with the firms it finances, helping entrepreneurs develop business models, identify new markets, and recruit ideal management teams.

Mr. Ghose joined Onset Ventures in 2001 after 19 years of working at high-tech companies in the Silicon Valley. During his career, he participated in several successful IPOs, including those of Sun Microsystems and Broadvision. Prior to joining Onset, he was senior vice president of operations at Tumbleweed Communications, where he managed the marketing, professional services, applications engineering, and corporate development departments. He helped the company through a successful IPO in 1999. Previously, he was VP of the Worldwide Professional Services Organization at Broadvision and helped that company through a successful IPO in 1996. At Onset Ventures, Shomit focuses on software, networking, and infrastructure companies. He also mentors and provides management resources to portfolio companies to help maximize their success.

Given Shomit's experience on guiding successful ventures, we asked him about his approach to appraising managers. Mr. Ghose told us, "At the coarsest level of granularity, as a start-up investor, I evaluate CEOs based on two principal metrics: the ability to raise money, and the ability to hire well. Implicit in the former is the ability to espouse a strategic vision, the ability to validate that vision via customer wins, and the ability to deliver a compelling business model. If you've been able to do these three, then you'll always be able to raise money at positive valuations. So the ability to get the interest of new investors and raise money is truly a capstone metric, a proxy, that allows you to objectively evaluate a business' - and hence the CEO's - progress." He continued, "Of course, start-ups can only grow if they have the right staff to scale the business. This certainly applies to companies in growing markets, and perhaps applies even more acutely in markets that are facing challenges. So my other key metric in evaluating the success or failure of a start-up CEO is by the quality and experience of the direct-reports they've succeeded in hiring."

Mr. Ghose emphasized that "The ability to hire well is a great proxy for an executive's ability to provide people management and effective leadership within the organization. It's a perfect capstone metric that allows you to evaluate the CEO's skill as a people manager and leader of their company. With quality staff in place the business always has a fighting chance to overcome any obstacles and grow. No one ever got fired for hiring too well, while not hiring well is the most surefire way to find yourself out of a job." From our discussion with Shomit Ghose, it became evident that management appraisal is an essential capability of a successful venture capital firm. And central elements of this ability are identifying and evaluating appropriate proxies for management performance. In the case of top management of venture-backed enterprise case, these proxies are top management's ability to raise financing and to hire well.

Mr. Ghose also detailed his evaluation criteria for functional managers, stating, "As for C-level executives below the CEO, I evaluate them primarily on their ability to contribute to the bottom line. For VPs of sales, it's based on their being able to build a scalable selling model with customers that matter. For VPs of marketing, it's the ability to generate reliable lead-flow for the sales team; they need to be able to make Sales' job ***bonehead easy.*** For VPs of engineering, it's the ability to deliver a product that meets the needs of the customer within the very finite time-frames that are typical in start-up ventures." Clearly, evaluation criteria will vary with the level and mandate of the managers involved. What are best proxies for effective management in the enterprise you are associated with?

Weaknesses of Appraisal against Verifiable Objectives

As noted in Chapter 4, there are certain weaknesses in the implementation of managing by objectives. These apply with equal force to appraisal. One of them is that it is entirely possible for persons to meet or miss goals through no effort or fault of their own. Luck often plays a part in performance. A new product's acceptance may be far beyond expectations and its success will make a marketing manager look exceptionally good, even though the quality of the marketing program and its implementation might actually be poor. Or an unpredictable cancellation of a major military contract might make the record of a division manager look unsatisfactory. There may also be an overemphasis on output quantity and not enough attention given to the quality of the product or service.[3]

Most evaluators will say that they always take uncontrollable or unexpected factors into account in assessing goal performance, and to a very great extent they do. But it is extremely difficult to do so. In an outstanding sales record, for example, how can anyone be sure how much was due to luck and how much to competence? Outstanding performers are rated highly, at least as long as they perform. Nonperformers can hardly escape having a cloud cast over them.

With its emphasis on accomplishing operating objectives, the system of appraising against these may overlook needs for individual development. Goal attainment tends to be short run in practice. Even if longer-range goals are put into the system, seldom are they so long range as to allow for adequate long-term development of managers. Managers concerned primarily with results might be driven by the system to take too little time to plan, implement, and follow through with programs required for their development and that of their subordinates.

On the other hand, since managing by objectives gives better visibility to managerial needs, development programs can be better pinpointed. If individual development is to be ensured, goals in this area should be specifically set.

From an appraisal as well as an operating management point of view, perhaps the greatest deficiency of management by objectives is that it appraises operating performance only. Not only is there the question of luck, but also there are other factors to appraise, notably an individual's managerial abilities. This is why an adequate appraisal system must appraise performance as a manager as well as performance in setting and meeting goals.

APPRAISING MANAGERS AS MANAGERS: A SUGGESTED PROGRAM

The most appropriate standards to use for appraising managers as managers are the fundamentals of management. It is not enough to appraise a manager broadly, evaluating only performance of the basic functions of the manager; appraisal should go further.

The most appropriate standards to use for appraising managers as managers are the fundamentals of management.

The best approach is to utilize the basic techniques and principles of management as standards. If they are basic, as they have been found to be in a wide variety of managerial positions and environments, they should serve as reasonably good standards. As crude as they may be, and even though some judgment may be necessary in applying them to practice, they give the evaluator some benchmarks for measuring how well subordinates understand and are following the functions of managing. They are definitely more specific and more applicable for evaluation than such broad standards as work and dress habits, cooperation, intelligence, judgment, and loyalty. They at least focus attention on what may be expected of a manager as a manager. And when used in conjunction with appraisal of the performance of plans and goals, they can help remove much of the weakness in many management appraisal systems.

In brief, the appraisal program that we suggest involves classifying the functions of the manager (as done in this book) and then dealing with each function by a series of questions. The questions are designed to reflect the most important fundamentals of managing in each area. Although the whole list of 73 key questions, the form used, the system of ratings, and the instructions for operating the program are too extensive to be treated in this book, sample "checkpoints" in the areas of planning and organizing are presented in Table 12-1.

TABLE 12-1 Sample questions for appraising managers as managers

Planning
• Does the manager set for the department both short- and long-term goals in verifiable terms that are related in a positive way to those of the superiors and of the company? • In choosing from alternatives, does the manager recognize and give primary attention to those factors that are limiting or critical to the solution of a problem? • Does the manager check plans periodically to see if they are still consistent with current expectations?
Organizing
• Does the manager delegate authority to subordinates on the basis of results expected of them? • Does the manager refrain from making decisions in that area once authority has been delegated to subordinates? • Does the manager regularly teach subordinates or otherwise make sure that they understand the nature of line and staff relationships?

Source: Harold Koontz and Heinz Weihrich, Measuring Managers: A Double-barreled Approach (New York: AMACOM, 1981).

Semantics has always been a problem in management. Therefore, it is wise to use a standard book on management (such as this one) and refer to the pages that correspond to the questions. This approach leads to a fair degree of managerial development.

Managers are rated on how well they perform the activities. The scale used is from 0 for "inadequate" to 5 for "superior." To give the numerical ratings more rigor, each rating is defined. For example, “superior” means “a standard of performance which could not be improved under any circumstances or conditions known to the rater.”

To further reduce subjectivity and to increase the discrimination between performance levels, the program requires that (1) in the comprehensive annual appraisal, incident examples be given to support certain ratings; (2) the ratings be reviewed by the superior’s superior; and (3) the raters be informed that their own appraisal will depend in part on how well they discriminate on the ratings of performance levels when evaluating their subordinates. Obviously, objectivity is enhanced by the number and the specificity of the checkpoint questions.

Advantages of the Program

Experience with this program in a multinational company showed certain advantages. By focusing on the essentials of management, this method of evaluation gives operational meaning to what management really is. Also, the use of a standard reference text for interpretation of concepts and terms removes many of the semantic and communication difficulties so commonly encountered. Such things as variable budgets, verifiable objectives, staff, functional authority, and delegation take on consistent meaning. Likewise, many management techniques become uniformly understood.

The system, furthermore, has proved to be a tool for management development. In many cases, it has brought to the managers’ attention certain basics that they may have long disregarded or not understood. In addition, it has been found useful in pinpointing areas in which weaknesses exist and to which development should be directed. Finally, as intended, the program acts as a supplement to and a check on the appraisal of the managers’ effectiveness in setting and achieving goals. If a manager has a record of outstanding performance in goal accomplishment but is found to be less than average, those in charge will look for the reason. Normally, one would expect a truly effective manager to be effective also in meeting goals.

Weaknesses of the Program

There are, however, a number of weaknesses or shortcomings in the approach. It applies only to managerial aspects of a given position and not to technical qualifications such as marketing or engineering abilities that might also be important. These, however, can be weighed on the basis of goals selected and achieved. There is also the apparent complexity of the 73 checkpoints; rating on all of them does take time, but the time is well spent.

Perhaps, the major shortcoming in appraising managers as managers is the subjectivity involved. Some subjectivity in rating each checkpoint is unavoidable. However, the program still has a high degree of objectivity and is far more objective than appraisal of managers only on the broader areas of the managerial functions. At least the checkpoints are specific and pertain to the essentials of managing.

A TEAM EVALUATION APPROACH[4]

Another approach to performance appraisal has been introduced. The criteria selected for evaluation are in part similar to the ones mentioned earlier and include planning, decision-making, organizing, coordinating, staffing, motivating, and controlling. But other factors such as selling skills may also be included.

The appraisal process involves the person being evaluated and consists of the following steps:

- Selection of job-related criteria
- Development of examples of observable behavior
- Selection of four to eight raters (peers, associates, other supervisors, and naturally, the immediate superior)
- Preparation of the rating forms applicable to the job
- Completion of the forms by the raters
- Integration of the various ratings
- Analysis of the results and preparation of the report

This approach has been used not only for appraisal, but also for the selection of people for promotion, for personnel development, and even for dealing with alcoholism.

The advantages suggested by the originators of this approach include a rather high degree of accuracy in appraising people by obtaining several inputs rather than input from the superior only. The program can be used to identify raters' bias (e.g., rating consistently high or low, or giving such ratings to certain groups of people, such as women or people of minority groups). The persons being rated apparently would consider this approach quite fair, since they are involved in selecting the evaluation criteria as well as the raters. It also allows comparison of individuals with each other. Although this approach has been used by a variety of enterprises, further assessment seems necessary.

APPLICATION OF PERFORMANCE REVIEW SOFTWARE[5]

The annual review of performance is often disliked by both the superior and the subordinate. Moreover, it is time consuming. One study at Cornell University found that in large firms, managers spend about six hours per year for each employee.[6] More recently, several companies developed software that may make the evaluations among superiors more consistent by providing a structure to the appraisal. The paper- based evaluation may be replaced or complemented with web-based appraisal. Of course, the computer-based program is no substitute for the human interaction between the superior and the subordinate. However, the software may include a number of valuable features.

A manager may complete electronically the evaluation form that can be reviewed by other managers who can provide additional inputs and by the employee himself or herself before it is submitted to the human resource department. The data base can then be used for identifying training needs, management development, and for identifying those individuals who are ready for promotions to a position within the total organization.

Managers, who do not submit the evaluations of their employees in time, can be reminded automatically through the software program. This increases the on-time completion of appraisals. While it is not a cure-all to the often much dreaded annual appraisal, it can save time and make this important task easier.

Enterprise applications have become more available in recent years to make the process of managing human capital more effective and efficient. For example, Workday is a cloud-based human capital management application that can help managers maximize their organization's human resources. Management students would do well to familiarize themselves with modern enterprise software so that they are prepared to enter the workforce with the appropriate technical competencies.

REWARDS AND STRESS OF MANAGING

Managers are different: they have different needs, desires, and motives. The essentials of motivation will be discussed in Chapter 14; the concern here is with some of the general and financial rewards as well as the stressful aspects of managing.

Rewards of Managing: General Aspects

Since managerial candidates differ widely in age, economic position, and level of maturity, their needs and wants vary, but they usually include opportunity, power, and income. Most managerial candidates desire the opportunity for a progressive career that provides depth and breadth of managerial experience. Related to this is the challenge found in meaningful work. Most people, but perhaps managers in particular, want to feel that they have the power to make a significant contribution to the aims of an enterprise and even to society.

In addition, managers want to be and should be rewarded for their contributions, although the size of financial rewards has been criticized.

Pay for Performance

There is probably no other item as controversial as the relationship between appraisals of performance and pay. At General Electric (GE), workers get paid for performance; they are paid bonuses when they achieve challenging goals instead of according to a person's title or the length of service. Such an approach requires that the goals be clear and people know what is expected of them. Also, it must be explained to employees what the total compensation is, including fringe benefits. At one university, for example, faculty members get a benefit statement that shows not only the annual salary, but also theuniversity's contribution to the health plan, the faculty assistance program, life insurance, dental insurance, long-term disability insurance, worker's compensation, travel accident insurance, Social Security tax, and the university's retirement contribution.

www.ge.com

The reward should be timely. This means that it should be given shortly after the work well done. The GE Medical Systems group, for example, has a Quick Thanks program that lets employees nominate a colleague for an exceptional performance. The $25 gift certificate can be used in selected stores and restaurants. The positive psychological effect may be even more important than the monetary reward.

www.gemedicalsystems.com

An increase in salary can hardly ever be reversed. A bonus, on the other hand, can be made contingent on outstanding performance. Steven Kerr at GE recommends variable compensation based on performance, but he also recognizes that this may not be suitable in some countries. A cash bonus could be considered a bribe in Japan, because it may be seen as paying for work that is a part of the job anyway. Also, some employees may prefer an extra vacation instead of a cash payment. Therefore, cultural differences should be taken into account when using variable compensation.

Should doctors be paid for performance? This is the big question for 80 physicians with specialties in psychiatry, neurology, and general pediatrics as well as adolescent and emergency medicine at the Children’s Hospital in Oakland, California.[7] The proposed plan would provide bonuses for the doctors instead of being paid for the time they worked. Although the performance criteria are not quite clear, they might include the number of visits and other factors. Most of the physicians are opposed to the plan, arguing that the incentive plan would result in doctors spending less time with each patient and give greater attention to private pay patients and less to those covered by Medi-Cal. While pay for performance is generally accepted in companies, the concept may be more difficult to apply in certain fields such as medical care.

Stress in Managing[8]

Stress is a very complex phenomenon. It is therefore no surprise that there is no commonly accepted definition. A widely used working definition is an adaptive response, mediated by individual differences and/or psychological processes, which is a consequence of any external (environmental) action, situation, or event that places excessive psychological and/or physical demands on a person.

Stress An adaptive response, mediated by individual differences and/or psychological processes, which is a consequence of any external action, situation, or event that places excessive psychological and/or physical demands on a person.

Hans Selye, probably the leading authority on the concept of stress, describes stress as “the rate of all wear and tear caused by life.”[9] There are many physical sources of stress, such as work overload, irregular work hours, loss of sleep, loud noises, bright light, and insufficient light. Psychological sources of stress may be due to a particular situation, such as a boring job, inability to socialize, lack of autonomy, responsibility for results without sufficient authority, unrealistic objectives, role ambiguity or role conflict, or a dual-career marriage. But what might be stressful to one person may be less so to another; people react differently to situations.

Stress can have various effects on the individual as well as on the organization.[10] There are the physiological effects that may be linked to a variety of illnesses. Then, there are psychological effects such as burnout or boredom. Various kinds of behavior such as drug and alcohol abuse, inordinate food consumption, accidents, or withdrawal from a stressful situation (absenteeism, excessive labor turnover) may be a reaction to stress. Clearly, not only does the individual suffer, but the organization may also be affected by the turnover or impaired decision-making of its managers and nonmanagers alike.

Individuals and organizations have attempted to deal with stress in various ways. Individuals may try to reduce stress through better time management, healthy nutrition, exercise, career planning, a change in jobs, promotion of psychological health, relaxation, meditation, and prayer. Organizations may provide counseling or recreation facilities or may improve the job design by matching the person with the job.

Fitting the Needs of the Individual to the Demands of the Job

Managing, then, offers rewards but also involves stress. An individual aspiring to a managerial position should evaluate both the advantages and the disadvantages of managing before pursuing this career. A proper fit between individual needs and the demands of the task will benefit both the individual and the enterprise. Career management will help to achieve this fit.

FORMULATING THE CAREER STRATEGY[11]

The appraisal of performance should identify the strengths and weaknesses of an individual; this identification can be the starting point for a career plan. Personal strategy should be designed to utilize strengths and overcome weaknesses in order to take advantage of career opportunities. Although there are different approaches to career development,[12] it is considered here as a process of developing a personal strategy that is conceptually similar to an organizational strategy. This process is summarized in Figure 12-2.

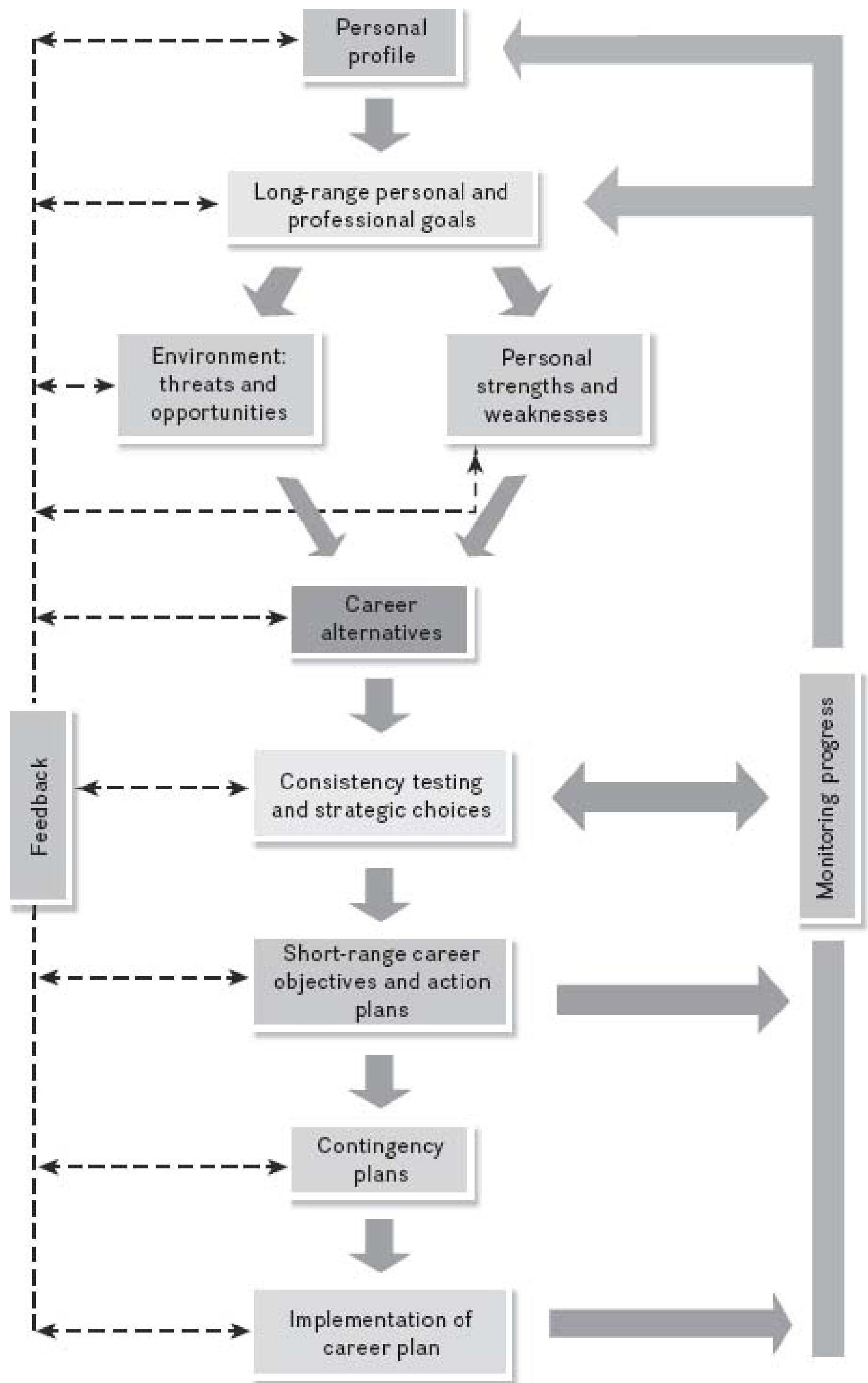

FIGURE 12-2 Formulation of a career strategy

Source: Harold Koontz and Heinz Weihrich, *Measuring Managers: A Double-barreled Approach* (New York: AMACOM, 1981).

1. Preparation of a Personal Profile

One of the most difficult tasks is gaining insight into oneself; yet, this is an essential first step in developing a career strategy. Managers should ask themselves: Am I an introvert or an extrovert? What are my attitudes toward time, achievement, work, material things, and change? The answers to these and similar questions and a clarification of values will help in determining the direction of the professional career.

2. Development of Long-Range Personal and Professional Goals

No airplane would take off without a flight plan, including a destination. Yet, how clear are managers about the direction of their lives? People often resist career planning because it involves making decisions. By choosing one goal, a person gives up opportunities to pursue others; if an individual studies to become a lawyer, he or she cannot become a doctor at the same time. Managers also resist goal setting because uncertainties in the environment cause concern about making commitments. Furthermore, there is the fear of failing to achieve goals because failure is a blow to one's ego.

However, by understanding the factors that inhibit goal setting, one can take steps to increase commitment. First, when the setting of performance goals becomes a part of the appraisal process, identifying career goals is easier. Besides, one does not set career goals all at once. Rather, goal setting is a continuous process that allows flexibility; professional goals can be revised in light of changing circumstances. Another factor that reduces resistance to goal setting is the integration of long-term aims with the more immediate requirement for action. For example, the aim of becoming a doctor makes one accept the study of boring subjects that are necessary for the medical degree.

How far in advance should one plan? The answer may be found in the commitment principle. It states that planning should cover a period of time necessary for the fulfillment of commitments involved in the decision made today. Therefore, the time frame for career planning will differ with the circumstances. For example, if a person wants to become a professor, it is necessary to plan for university studies of seven to nine years. On the other hand, if the career goal is to become a taxi driver, the time span is much shorter. At any rate, the longterm aim has to be translated into short-term objectives. Before this is done, it is necessary to make a careful assessment of the environment, including its threats and opportunities.

3. Analysis of the Environment: Threats and Opportunities

In the analysis of the environment, internal and external, many diverse factors need to be taken into account. They include economic, social, political, technological, and demographic factors; they also include the labor market, competition, and other factors relevant to a particular situation. For example, joining an expanding company usually provides more career opportunities than working for a mature company that is not expected to grow. Similarly, working for a mobile manager means a higher probability that the position of the superior will become vacant or one might "ride on the coattails" of a competent mobile superior by following him or her through a series of promotions up the organizational hierarchy. At any rate, successful career planning requires a systematic scanning of the environment for opportunities and threats.

One has to be concerned not only about the present, but also about the future environment. This requires forecasting. Since there are a great many factors that need to be analyzed, planning one's career necessitates being selective and concentrating on those factors critical to personal success.

4. Analysis of Personal Strengths and Weaknesses[13]

For successful career planning, the environmental opportunities and threats must be matched with the strengths and weaknesses of individuals. Capabilities may be categorized as technical, human, conceptual, or design. As Figure 1-2 in Chapter 1 illustrates, the relative importance of these skills differs for the various positions in the organizational hierarchy, with technical skills being very important on the supervisory level, conceptual and design skills being crucial for top managers, and human skills being important at all levels.

5. Development of Strategic Career Alternatives

In developing a career strategy, one usually has several alternatives. The most successful strategy would be to build on one's strengths to take advantage of opportunities. For example, if a person has an excellent knowledge of computers and many companies are looking for computer programmers, he or she should find many opportunities for a satisfying career. On the other hand, if there is a demand for programmers and if an individual is interested in programming but lacks the necessary skills, the proper approach would be a development strategy to overcome the weakness and develop the skills in order to take advantage of the opportunities.

It may also be important to recognize the threats in the environment and develop a strategy to cope with them. If a person with excellent managerial and technical skills is working in a declining company or industry, the appropriate strategy might be to find employment in an expanding firm or in a growing industry.

6. Consistency Testing and Strategic Choices

In developing a personal strategy, one must realize that the rational choice based on strengths and opportunities is not always the most fulfilling alternative. Although one may have certain skills required in the job market, a career in that field may not be congruent with personal values or interests. For example, a person may prefer dealing with people to programming computers. Some may find great satisfaction in specialization, while others prefer to broaden their knowledge and skills.

Strategic choices require trade-offs. Some alternatives involve high risks, others low risks. Some choices demand action now, other choices can wait. Careers that were glamorous in the past may have an uncertain future. Rational and systematic analysis is just one step in the career-planning process, for a choice also involves personal preferences, ambitions, and values.

7. Development of Short-Range Career Objectives and Action Plans

So far, concern has centered on career direction. But the strategy has to be supported by short-term objectives and action plans, which can be a part of the performance appraisal process. Thus, if the aim is to reach a certain management position that requires a Master of Business degree, the short-term objective may be to complete a number of relevant courses. Here is an example of a short-term verifiable objective: to complete the course Fundamentals of Management by May 30 with a grade of A. This objective is measurable, as it states the task to be done, the deadline, and the quality of performance (the grade).

Objectives often must be supported by action plans. Continuing with the example, the completion of the management course may require preparing a schedule for attending classes, doing the homework, and obtaining the understanding and support of the spouse for sacrificing family time to attend the course. It is obvious that the long-term strategic career plan needs to be supported by short-term objectives and action plans.

8. Development of Contingency Plans

Career plans are developed in an environment of uncertainty, and the future cannot be predicted with great accuracy. Therefore, contingency plans based on alternative assumptions should be prepared. While one may enjoy working for a small, fast-growing venture company, it may be wise to prepare an alternative career plan based on the assumption that the venture may not succeed.

9. Implementation of the Career Plan

Career planning may start during the performance appraisal. At that time, the person's growth and development should be discussed. Career goals and personal ambitions can be considered in selecting and promoting and in designing training and development programs.

10. Build a Professional Development Plan

Create a 10-year individual professional development plan, with annual career milestones. Provide a detailed strategy to enter industry of your choice. Provide an overview of industry such as description, size, trends, outlook (e.g., cyber security industry, marketing analytics industry, biotech industry, etc.) and footnote all sources. List an overview of key players in the industry-three companies and three executives. Note your preferred functional area in your target industry (e.g., marketing) and description of likely job and job title for you (e.g., marketing director in your target industry or company). Include brief biographies of three key executives in your target function (e.g., marketing, sales, etc.) in your industry/company. Use this as a guide for your career path.

10. Monitoring Progress

Monitoring is the process of evaluating progress toward career goals and making necessary corrections in the aims or plans. An opportune time for assessing career programs is during the performance appraisal. This is the time not only to review performance against objectives in the operating areas, but also to review the achievement of milestones in the career plan. In addition, progress should be monitored at other times such as at the completion of an important task or project.

Leadership Perspective

Career Planning in the New Economy

The traditional career model in which people prepared plans for working themselves up in a single organization needs to be modified. Today, people change jobs more frequently or even may work from their homes. There are more job opportunities. This is especially true for California's high-tech firms in the Silicon Valley with its rapidly changing business environment. While there are many opportunities in such an environment, job insecurity also increases. It is not unusual for a 32-year-old to have worked for nine different firms. California workers stay a medium of about three years with a company. Job seekers are better informed as the Internet provides data on job openings as well as pay scales.

But the Silicon Valley is not representative of the United States in general. Generally, Americans work longer hours than people in most European countries, such as France, Germany, and Sweden. The Japanese practice of lifelong employment is beginning to change, replaced by job insecurity. Furthermore, the use of temporary workers has also increased in Japan.

Perhaps, more than ever before, developing a career strategy or a personal entrepreneurial strategy is important. It has been suggested to have a clear goal in mind, but be flexible and find alternative ways to reach it. Many people switch from big manufacturing firms to small service companies during the course of their careers. In addition, it is essential to develop new skills needed for the new economy, to join professional organizations, and investing in education and reeducation because the rapid changes in the work environment demand new knowledge and new skills.

Write Your Own Biography

As individuals progress in their careers, they will often be invited to participate in various events and conferences. A brief biography of the invited speaker will often be requested. Prepare now and complete your professional biography and update it every few months. This is also a good exercise to review what you have accomplished and what the cost in time and effort was for these accomplishments. This biography is also a great way to help establish your own reputation in professional circles. Your biography should include your current assignments and recent accomplishments and education as well as a short reference to a personal interest (e.g., avid sailor or marathon runner, etc.)

Build your own mentor panel

Build your own professional mentor panel of three to four executives in your function or industry. One mentor should be from your home region who knows you well, at least one mentor from the region where you would like to build a career, and at least one mentor in your target functional area (e.g., marketing) and/or your target industry (biotech). Mentors can provide regular guidance, feedback (e.g., bi-weekly email correspondence and monthly conversations), and referrals on your professional development through your career.

Strategy for Dual-Career Couples[14]

An effective career strategy requires that consideration be given to the career of the spouse. Dual-career couples, with both partners working, sometimes have to make very stressful choices. For example, if both partners have successful careers, the opportunity for a promotion that requires relocation poses a particularly painful situation. Some companies are accommodating the special needs of dual-career couples by having a flexible approach to transfers that involve relocation, considering the needs of both partners in career planning, helping to find employment for the spouse either within the company or outside, and providing maternity leave and day-care services for children. With the large number of married women in the work force, an increasing number of companies have recognized the stressful situation of dual-career couples and incorporated more flexibility in their policies, in career planning, and in personnel selection, placement, and promotion.

SUMMARY

Appraisal is essential for effective managing. It should measure performance in achieving goals and plans as well as performance as a manager. An effective method is to appraise managers against verifiable objectives. This approach is operational, related to the manager's job, and relatively objective. Still, a person may perform well (or badly) because of luck or factors beyond his or her control. Therefore, the management by objectives approach should be supplemented by appraisal of managers as managers, which assesses how well they perform their key managerial activities.

There are three kinds of reviews: (1) the formal comprehensive appraisal, (2) progress or periodic reviews, and (3) continuous monitoring. In a suggested appraisal program, key managerial activities are presented as checklist questions and grouped under the categories of planning, organizing, staffing, leading, and controlling.

Since managers differ greatly, they look for different rewards, such as opportunity and income. The job of a manager is also stressful, and this can affect the individual as well as the organization. Therefore, various ways of coping with stress have evolved.

Career planning can be effectively integrated with performance appraisal. Although the specific steps in developing a career strategy may vary, the process is similar to developing an organizational strategy. Since dual-career couples are quite common today, an effective career strategy must include consideration of the spouse's career.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Three kinds of reviews

- Appraisal against verifiable objectives
- Appraising managers as managers
- Team evaluation approach
- Rewards of managing
- Stress in managing
- Ten steps in formulating a career strategy
- Career strategy for dual-career couples

FOR DISCUSSION

1. Do you think that managers should be appraised regularly? If so, how?
2. Many firms evaluate managers on personality factors such as aggressiveness, cooperation, leadership, and attitude. Do you think this kind of rating makes sense?
3. An argument has been made in this book for appraising managers on their ability to manage. Should anything more be expected of them?
4. How do you feel about an appraisal system based on results expected and realized? Would you prefer to be appraised on this basis? If not, why not?
5. On what basis should your performance in college be appraised?
6. What would you say to a student who tells you that he studied at least four hours every day in preparation for the midterm examination and still got only a C grade?
7. Describe the most rewarding and most stressful aspects of your job or your college experience.
8. What is your career goal? Have you developed a plan to achieve your goal? If not, why not?

EXERCISE/ACTION STEPS

1. Interview two managers. Ask them what criteria are used for their performance appraisal. Are the criteria verifiable? Do these managers think that the performance evaluation measures their performance in a fair manner?
2. Develop a 10-year professional career plan for yourself. Identify a personal profile for yourself and state your long-range personal and professional goals. What are your strengths and weaknesses? Follow the steps explained in this chapter to develop a comprehensive strategic career plan for yourself.

INTERNET RESEARCH

1. Access *Fortune* magazine's website and read on three topics in the "Careers" section. How can these sources help you in developing a career strategy?
2. Search the Internet for "performance appraisal." What criteria are used for evaluating performance? On what criteria would you like to be evaluated as a student, a subordinate, or a manager?

International Car Industry Case

Career Paths of CEOs at Toyota, Volkswagen (VW), Ford, and General Motors (GM)

Organizational strategies are to a great extent determined by CEOs. It is, therefore, important to learn about the career paths of the top executives. The focus is on the CEOs of the major car manufacturers of Toyota, VW, Ford, and GM.

Akio Toyoda, President and CEO of Toyota[15]

Mr. Toyoda, the grandson of the founder of Toyota, was born in 1956. He earned a law degree from Keio University in Japan and a Master of Business Administration from Babson College in the United States. He joined Toyota in 1984, became executive vice president in 2005, and president in 2009 at the time the company had an extensive car recall campaign for quality defects. Shortly after assuming the position, he apologized to the U.S. Congress for the vehicle recalls. At age 53, he is a young president by Japanese standards. He took the office when Toyota reported the biggest annual loss.

He spent seven years in the United States and speaks fluent English. When asked about comparing life in the United States and Japan, he liked the feeling of freedom in the United States. In contrast, he explained, life is more restricted in Japan because it is a small country and people live close together; which, in turn, requires more consideration for others.

He enjoyed working on the factory floor more than sitting in the office, which is necessary for his job as CEO. He is interested in racing cars and views the challenge for the car industry as using the available energy resources effectively and efficiently. This is one of the reasons Toyota focuses on the development of the fuel-efficient hybrid cars, illustrated by the best-selling Prius model.

In his early tenure as president, Akio Toyoda had to face many challenges such as the financial condition of the company, the car recall, and the damage caused by the 2011 earthquake disaster.

Martin Winterkorn, VW CEO and Chairman of the Board[16]

Mr. Winterkorn was born in 1947 and became chairman of the VW board in 2007. He studied metallurgy and metal physics at the University of Stuttgart from 1966 to 1973. In 1977, he earned his doctorate from the prestigious Max-Planck Institute for metal research and metal physics. He then joined Robert Bosch GmbH working in the refrigerant compressor group. In1993, he became the director of the Group Quality Assurance at VW and worked in various technical fields. In 2002, he became head of the Audi group, which includes brands such as SEAT and Lamborghini.

The VW group includes passenger cars and large vehicles. The international group consists of VW of America, Brazil, China, India, and Ireland. The company also has major interests in Porsche AG, MAN SE, Suzuki Motor Corporation, Italdesign Giugiaro, and others.

The goal of Martin Winterkorn is to make VW the largest car company by 2018. His strategy is to overtake, by sales volume, the current leader Toyota. Some of the first moves are the expansion of the operations in China and in Chattanooga, Tennessee, U.S., where the midsize Passat will be built. Some specific goals are to be an attractive employer, achieve the greatest customer satisfaction, and have pretax returns on sales of over 8 percent. Winterkorn also plans to improve the brands like Audi, SEAT, and Skoda.

Alan Mulally, President and CEO of Ford Motor Company[17]

Mr. Mulally, who considers himself as being an engineer and businessman, was born in 1945. He graduated with the Bachelor and the Master of Science degrees in astronautical engineering from the University of Kansas. He also earned a master's degree in management as a Sloan Fellow at MIT. Before joining Ford, he served as executive vice president of Boeing Company and CEO of Boeing's commercial airplanes group. Mulally started at Boeing as an engineer in 1969 and has been credited with making Boeing competitive with Airbus, the European consortium.

In 2006, Mulally became CEO and president of Ford. He was named one of "The Best Leaders of 2005" by *Business Week* magazine and *AUTOWEEK* called him Top CEO. During the financial crisis, Ford was the only American automobile manufacturer that avoided government-sponsored bankruptcy.

Daniel F. Akerson, Chairman and Executive Officer at GM[18]

Mr. Akerson was born in 1948. He earned his Bachelor of Science degree from the U.S. Naval Academy in 1970 and his Master of

Science degree from the London School of Economics. Since 2010, he is the CEO of GM and became chairman in 2011. He joined the GM board as a representative of the government.

Before joining GM, he was the managing director of the Carlyle Group, a private equity company (2003-2010). In addition, he also had extensive experience with several other companies, including XO Communication (1999-2003), Nextel Communication (1996-1999), General Instrument (1993-1995), and MCI Communication (1983-1993).

While with the Carlyle Group, he gained experience in company buyouts in Asia and Europe as well as providing other services in Japan and the United States. For example, he formulated and implemented MCI's global strategy. At Nextel, he helped the company become a national digital wireless provider. Clearly, he has a strong background in telecommunication.

Before becoming GM's CEO, he served on GM's Board as well as on the Board of the American Express firm. With his background in the financial industry, he is attractive to GM investors, but he is not a person with hands-on car experience. Akerson is a relative unknown in the car industry. However, his goal is to make GM cars better than those from competitors such as BMW.

Questions

1. Which CEO do you think has the best experience for succeeding in the automobile industry? Why?
2. Do you think that management skills are transferable between industries? If you say "no," how successful do you think Daniel Akerson will be at GM?
3. What is your career path? Is it in a technical field, finance, marketing, operations, or is it another path?
4. Do you want to work in a line or staff position? Why? What makes a line or staff

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CHAPTER

13

Managing Change through Manager and Organization Development

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Distinguish between manager development, managerial training, and organization development
2. Discuss the manager development process and training
3. Describe the various approaches to manager development
4. Identify changes and sources of conflict and show how to manage them
5. Describe the characteristics and process of organization development
6. Understand the learning organization

This chapter deals with change. First, the focus is on the change of individuals, specifically manager development and training. However, people do not operate in isolation. Consequently, in the second part of this chapter, the emphasis shifts to groups of individuals and organizations.

Excellent executives look to the future and prepare for it. One important way to do this is to develop and train managers so that they are able to cope with new demands, new problems, and new challenges. Indeed, executives have a responsibility to provide training and development opportunities for their employees so that they can reach their full potential.

The term **manager development** refers to long-term, future-oriented programs and the progress a person makes in learning how to manage. **Managerial training**, on the other hand, pertains to the programs that facilitate the learning process and is mostly a short-term activity to help managers do their jobs better. In this book, **organization development (OD)** is a systematic, integrated, and planned approach to improving the effectiveness of groups of people and of the whole organization or a major organizational unit. OD uses various techniques for identifying and solving problems.

Manager development The use of long-term, future-oriented programs to develop a person's ability in managing.

Managerial training The use of mostly shortterm programs that facilitate the learning process to help managers do their jobs better.

Organization development A systematic, integrated, and planned approach to improving the effectiveness of groups of people and of the whole organization or a major organizational unit.

Essentially, OD focuses on the total organization (or a major segment of it), while manager development concentrates on individuals. These approaches support each other and should be integrated to improve the effectiveness of both the managers and the enterprise.

MANAGER DEVELOPMENT PROCESS AND TRAINING

Before specific training and development programs are chosen, three kinds of needs must be considered. First, the needs of the organization include such items as the objectives of the enterprise, the availability of managers, and turnover rates. Second, needs related to operations and the job itself can be determined from job descriptions and performance standards. Third, data about individual training needs can be gathered from performance appraisals, interviews with the jobholder, tests, surveys, and career plans for individuals. Let us look more closely at the steps in the manager development process, focusing first on the present job, then on the next job in the career ladder, and finally on the long-term future needs of the organization. The steps in manager development are depicted in Figure 13-1.

Present Job

Manager development and training must be based on a need analysis derived from a comparison of actual performance and behavior with required performance and behavior (Figure 13-2). A district sales manager has decided that 1,000 units is a reasonable sales expectation; but the actual sales are only 800, which is 200 units short of the target. Analysis of the deviation from the target might indicate that the manager lacks the knowledge and skills for making a forecast and that conflict between subordinate managers hinders effective teamwork. On the basis of this analysis, training needs and methods for overcoming the deficiencies are identified. Consequently, the district sales manager enrolls in courses in forecasting and conflict resolution. Furthermore, OD efforts are undertaken to facilitate cooperation among organizational units.

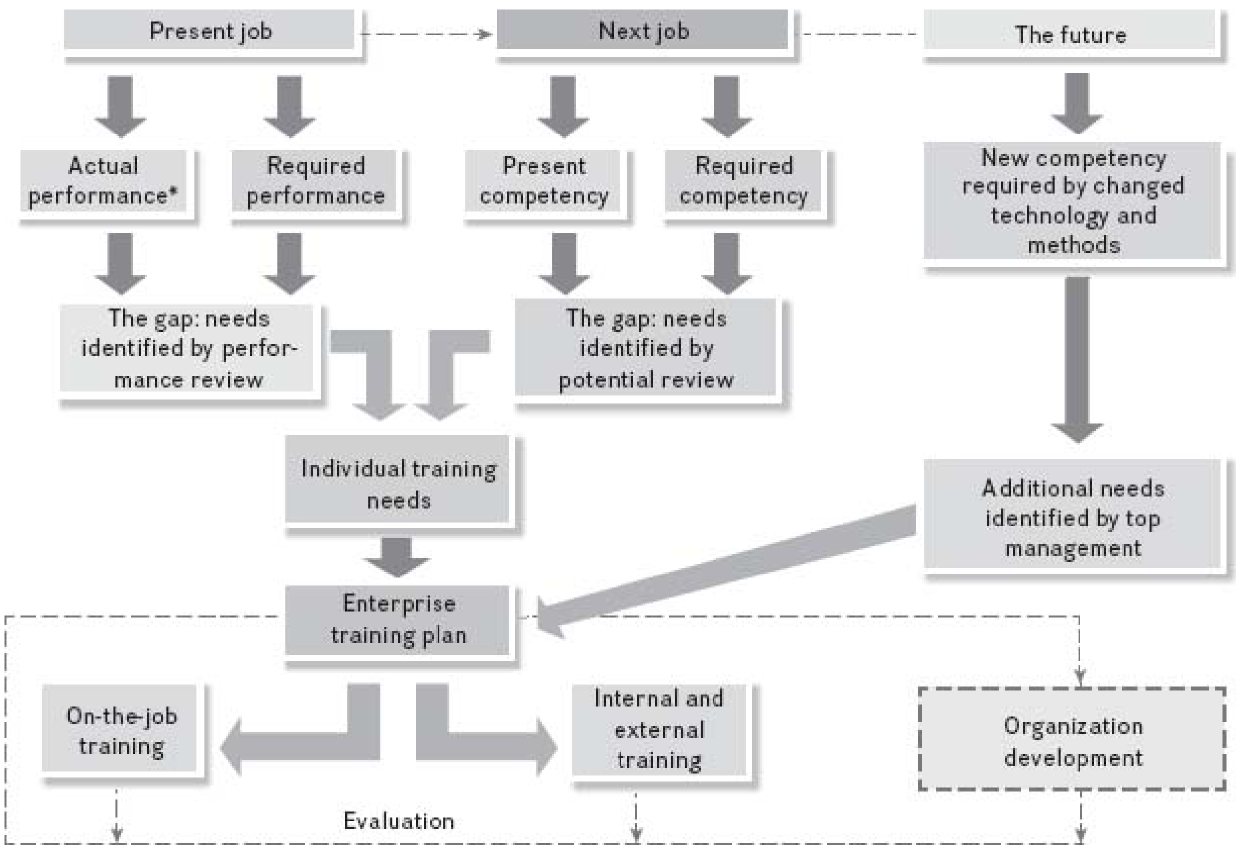

FIGURE 13-1 Manager development process and training

* This includes performance measured against verifiable objectives and performance in carrying out key managerial activities.

Adapted from John W. Humble, *Improving Business Results* (Maidenhead, England: McGraw-Hill Book Company [UK], Ltd., 1968).

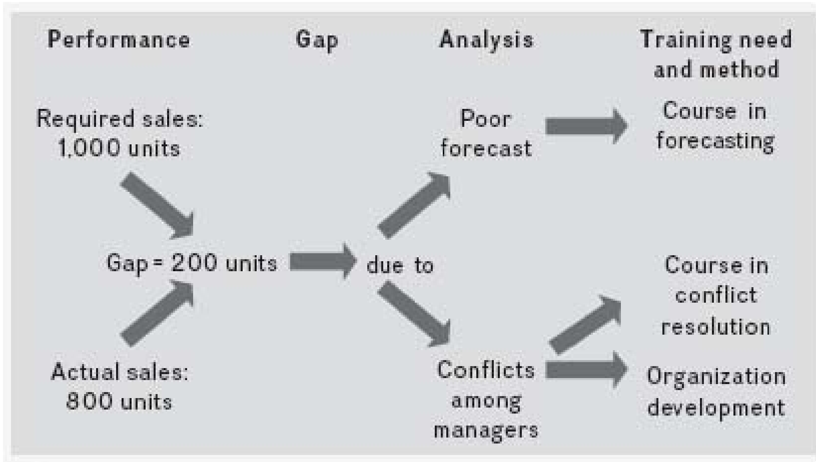

FIGURE 13-2 Analysis of training needs

Next Job

As shown in Figure 13-1, a similar process is applied in the identification of the training needs for the next job. Specifically, present competency is compared with the competency demanded by the next job. A person who has worked mainly in production may be under consideration for a job as a project manager. This position requires training in functional areas such as engineering, marketing, and even finance. This systematic preparation for a new assignment certainly is a more professional approach than simply thrusting a person into a new work situation without training.

Future Needs

Progressive organizations go one step further in their training and development approach: they prepare for the more distant future. This requires that they forecast what new competencies will be demanded by changing technology and methods. For example, energy shortages may again occur, and this requires that managers be trained not only in the technical aspects of energy conservation, but also in energy- related, long-range planning and creative problem solving. In the new millennium, training in e-business is essential. In Europe especially, the impact of m-business (mobile and wireless business) has been taught in training programs. These changes, created by the external environment, have to be integrated into enterprise training plans with a focus on the present as well as the future. These plans are contingent not only on the training needs, but also on the various approaches to manager development that are available.

Innovation Perspective

Managing Human Resources at PriceWaterhouseCoopers in China[1]

PriceWaterhouseCoopers (PWC) is the largest company in China that provides assurance and business advisory services, management consulting services, and tax and legal services. Its more than 3,000 employees, with a wealth of local experience, help international as well as local clients with business solutions.

www.pwcglobal.com

The management of human resources is of critical importance for the success of the company. Great emphasis is placed on recruiting in schools. Selecting from among the many candidates is a thorough process that includes close contact with university personnel who can identify potential candidates. Moreover, resumes posted on websites are also scanned for qualified candidates, who have to show proficiency in the English language.

The selection process includes initial interviews, workshop exercises, additional interviews, and the hiring decision. After being hired, the recruits have to undergo extensive training that includes lectures, audiovisual material, simulations, and self-study programs. Performance and progress are assessed through the appraisal process. The company employs behaviorally anchored rating scales as well as other instruments which focus on specific, measurable objectives that are agreed upon by the superior and the subordinate.

The PWC approach to the management of human resources illustrates how managerial practices can be transferred through global companies by the use of modern management tools.

APPROACHES TO MANAGER DEVELOPMENT: ON-THE-JOB-TRAINING

Many opportunities for development can be found on the job. Trainees can learn as they contribute to the aims of the enterprise. However, because this approach requires competent higher-level managers who can teach and coach trainees, there are limitations to on-the-job- training.

Planned Progression

Planned progression is a technique that gives managers a clear idea of their path of development. Managers know where they stand and where they are going. For example, a lower-level manager may have an outline available of the path from superintendent to works manager and eventually to production manager. The manager then knows the requirements for advancement and the means of achieving it. Unfortunately, there may be an overemphasis on the next job instead of on good performance of present tasks. Planned progression may be perceived by trainees as a smooth path to the top, but it really is a step-by-step approach which requires that tasks be done well at each level.

Planned progression gives managers a clear idea of their path of development.

Job Rotation

The purpose of job rotation is to broaden the knowledge of managers or potential managers. Trainees learn about the different enterprise functions by rotating into different positions. They may rotate through (1) nonsupervisory work, (2) observation assignments (observing what managers do rather than actually managing), (3) various managerial training positions, (4) middle-level “assistant” positions, and even (5) various managerial positions in different departments such as production, sales, and finance.

Job rotation is intended to broaden the knowledge of managers or potential managers in different enterprise functions.

The idea of job rotation is good, but there are difficulties. In some job rotation programs, participants do not actually have managerial authority. Instead, they observe or assist line managers, and they do not have the responsibility they would have if they were actually managing. Even in rotations to managerial positions, the participants in the training program may not remain long enough in each position to prove their future effectiveness as managers. Furthermore, when the rotation program is completed, there may be no suitable positions available for the newly trained managers. Despite these drawbacks, if both managers and trainees understand the inherent difficulties, job rotation has positive aspects and should benefit trainees.

Creation of "Assistant To" Positions

“Assistant to” positions are frequently created to broaden the viewpoints of trainees by allowing them to work closely with experienced managers who can give special attention to the development needs of trainees. Managers can, among other things, give selected assignments to test the judgment of trainees. As in job rotation, this approach can be very effective when superiors are also qualified teachers who can guide and develop trainees until they are ready to assume full responsibilities as managers.

“**Assistant to**” positions are often created to broaden the viewpoints of trainees through working closely with experienced managers.

Temporary Promotions

Individuals are frequently appointed as “acting” managers when, for example, the permanent manager is on vacation, is ill, or is taking an extended business trip, or even when a position is vacant. Thus, temporary promotions are a developmental device as well as a convenience to the enterprise.

Temporary appointment to acting manager is used to cover the responsibilities of the absent manager.

When the acting manager is given the authority to make decisions and to assume full responsibility, the experience can be valuable. On the other hand, if such a manager is merely a figurehead, makes no decisions, and really does not manage, the developmental benefit may be minimal.

Committees and Junior Boards

Committees and junior boards, also known as multiple management, are sometimes used as developmental techniques. These give trainees the opportunity to interact with experienced managers. Furthermore, trainees, usually from the middle but sometimes from the lower level, become acquainted with a variety of issues that concern the whole organization. They learn about the relationships between different departments and the problems created by the interaction of these organizational units. Trainees may be given the opportunity to submit reports and proposals to the committee or the board and to demonstrate their analytical and conceptual abilities. On the other hand, trainees may be treated in a paternalistic way by senior executives and may not be given opportunities to participate, an omission that might frustrate and discourage them. The program would then be detrimental to their development.

Committees and junior boards, also known as multiple management, give trainees the opportunity to interact with experienced managers.

Coaching

On-the-job-training is a never-ending process. A good example of on-the-job-training is athletic coaching. To be effective, coaching, which is the responsibility of every line manager, must be done in a climate of confidence and trust between the superior and the trainees. Patience and wisdom are required of superiors, who must be able to delegate authority and give recognition and praise for jobs well done. Effective coaches will develop the strengths and potentials of subordinates and help them overcome their weaknesses. Coaching requires time; but if done well, it will save time and money and will prevent costly mistakes by subordinates. Thus, in the long run, it will benefit all—the superior, the subordinates, and the enterprise.

Coaching must be done in a climate of confidence and trust, with the aim of developing subordinates' strengths and overcoming their weaknesses.

APPROACHES TO MANAGER DEVELOPMENT: INTERNAL AND EXTERNAL TRAINING[2]

As indicated in Figure 13-1, besides on-the-job-training, there are many other approaches to manager development. These programs may be conducted within the company or they may be offered externally by educational institutions and management associations.

Conference Programs

Conference programs may be used in internal or external training. They expose managers or potential managers to the ideas of speakers who are experts in their field. Within the company, employees may be instructed in the history of the firm and its purposes, policies, and relationships with customers, consumers, and other groups. External conferences may vary greatly, ranging from programs on specific managerial techniques to programs on broad topics, such as the relationship between business and society.

Conference programs expose managers or potential managers to the ideas of speakers who are experts in their field.

These programs can be valuable if they satisfy a training need and are thoughtfully planned. A careful selection of topics and speakers will increase the effectiveness of this training device. Furthermore, conferences can be made more useful by including discussions, as two-way communication allows participants to ask for clarification of topics that are particularly relevant to them.

University Management Programs

Besides offering undergraduate and graduate degrees in business administration, many universities now conduct courses, workshops, conferences, and formal programs for training managers. These offerings may include evening courses, short seminars, live-in programs, a full graduate curriculum, or even programs tailored to the needs of individual companies. Some executive development centers even provide career development assistance with programs designed to fit the typical training and development needs of first-line supervisors, middle managers, and top executives.

University management programs expose managers to theories, principles, and new developments in management.

These university programs expose managers to theories, principles, and new developments in management. In addition, there is usually a valuable interchange of experience among managers who, in similar positions, face similar challenges.

In-House "Universities"

One of the earliest in-house educational facilities was established by General Electric's CEO Ralph Cordiner in the mid- to late 1950s in Crotonville, New York. Jack Welch the recently retired GE CEO, liked to teach at Crotonville on his favorite strategy theme of making GE's units No. 1 and No. 2 in the market.[3] Crotonville became GE's center for learning.

Another well-known center for in-company learning is McDonald's University near Chicago. It has its own library and modern electronic classrooms, in which managers study how to operate McDonald's restaurants. Similar universities are located strategically in several parts of the world. Many companies have established their own universities.

Other companies engaged in their own training and development of managers are Intel, FedEx, Capital One, and many others. German companies, known for their comprehensive apprenticeship training, have expanded their programs to include managerial education. For example, SAP (known for its software offerings) and BASF (a multinational chemical firm) have supplemented their programs with a program at the University of Applied Sciences in Ludwigshafen, Germany.

Still another example of in-house development is the IBM's Peace Corps-Type Training.[4] IBM is well known for its classroom training of its personnel. But the real world is different from the classroom. Therefore, the HR department initiated a program that is modeled after the US Peace Corps program. The objective of the program is to teach managers how the real world works. In this innovative program, IBMers spend a month in countries such as India, Brazil, Malaysia, South Africa, and others to learn about the culture and to become a kind of global citizen. This means living in circumstances different from their home country—not luxury hotels with CNN connections, but guest houses eating local food. Program participants work in teams with local governments, universities, and businesses to help them upgrade their technologies and improving the water quality. This one-month program will not make the participants instant global experts, but they learn that the earth is "flatter," in which people from different cultures work together to achieve common goals.

Leadership Perspective

Preparing Leaders to Think about the Future at Singularity University[5]

Located at the NASA Ames Research Center in California, Singularity University is not a traditional university. Instead, the aim is to attract executives who deal with disruptive technologies in the rapidly changing environment dealing with topics such as robotics. The participants work in small groups to explore new ideas. Applicants from some 60 countries explore, for example, the future of the application of artificial intelligence to assume certain functions of the brain.

Readings, Television, Video Instruction, and Online Education[6]

Another approach to development is planned reading of relevant and current management literature. This is essentially self-development. A manager may be aided by the training department, which often develops a reading list of valuable literature. This learning experience can be enhanced through discussion of articles and books with other managers and the superior.

Increasingly, management and other topics are featured in television instruction programs. For certain programs, college credits can be obtained. Moreover, videotapes on a variety of subjects are available for instruction and learning in the university or company classroom.

Investment in online education is growing. The providers of online education can be categorized into three groups: (1) schools, (2) universities, and (3) business and commercial training organizations.[7] Universities use the new technologies for graduate programs and extension courses. At the University of California, Los Angeles, most of the 3,000 undergraduate courses are accompanied by websites containing lecture notes and supplementary material; even tests can be taken online. The University of Phoenix mixes distance learning with evening classes. Business schools such as the University of

Chicago, Columbia University, Stanford University, the London School of Economics, and Carnegie Mellon University work with Cardean University to offer complete online courses. Firms such as Blackboard and WebCT have developed platforms for placing course materials on the Web. Although online education can be helpful, skeptics question the profitability and effectiveness of the application of the new technologies.

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www.cardean.edu
www.blackboard.com
www.webct.com
www.coursera.org

And companies like Coursera provide free or low-cost online courses from premier universities around the world.

Business Simulation and Experiential Exercises

Business games and experiential exercises have been used for some time, but the introduction of computers has made these approaches to training and development even more popular. The computer, however, is only one of several tools; many of the exercises do not require any hardware at all.

The great variety of business simulations is best illustrated by the topics discussed at meetings of the Association for Business Simulation and Experiential Learning. The approaches range from behavioral exercises dealing, for example, with attitudes and values to simulations in courses such as marketing, accounting, decision support systems, and business policy and strategic management.

www.towson.edu/~absel

E-Training[8]

With operations in many places, companies such as McDonalds, Thrifty Car Rental, and Circuit City offer Web-based training classes, which may be more cost-effective than traditional classroom training. McDonald's, for example, started its pilot Web training in 2001 with 3,000 employees in four languages in six countries. Various approaches are possible. One is the off-the-shelf content. Another approach is to create a virtual classroom with the teacher interacting with students. Synchronous e-learning with live instructions appears to be more effective than self-paced learning that requires self-discipline. Live instructions can be adapted to the needs of students at the particular time by integrating overhead transparencies, slides, and lecture notes. One approach is to blend off-the-shelf programs with live e-training.

www.mcdonalds.com
www.thrifty.com
www.circuitcity.com

E-learning has been successfully used in knowledge-intensive companies, such as IBM's Basic Blue e-learning approach. Now, e-training is employed for teaching skills. The U.S. Internal Revenue Service uses Web-based training and so does Neptune Orient Lines, the large transporter of containers. The container company has to train its global work force in various countries such as Europe, Asia, South America, and other regions. Instead of sending trainers around the world, it uses live e-learning as a cost-effective alternative.

www.ibm.com
www.irs.gov
www.nol.com.sg

The trend of e-learning is just in its early stages. More research will have to be done to make it more effective and to find the proper balance between self-paced learning and instructor-led training.

Innovation in Higher Education: edX and Coursera Online Programs[9]

"Half of the business schools in this country could be out of business in 10 years."[10]

Most threatened are those schools that rely on executive education programs and part-time students. One way to mitigate the situation would be through distant learning programs. Even elite schools such as Wharton and Stanford University offer online programs. The University of California Los Angeles offers a hybrid program with in-class and online courses. Two approaches to online learning and researching are edX and Coursera.

edX

This program is an online course platform using open-source software. It was founded by MIT and Harvard in 2012 and is offered without charge worldwide. In 2014, it had more than two million users who could take advantage of more than 170 courses.

The programs are in partnership with institutions in the United States, China, and India. Member institutions are in Australia, Canada, China, Hong Kong, Japan, Switzerland, Belgium, Germany, India, the Netherlands, South Korea, and Sweden.

Some programs offer blended classrooms that include traditional classes with online interactive components. The learning experiences may include short videos, learning exercises, and the use of tablets and slides. Also, online textbooks may be used. The online discussion forums allow interactions among students. The edX program does not offer course credit, but the participating colleges may do so. Here are some sample courses offered through edX: Introduction to computer science, solar energy, statistics, challenges to global poverty, and many others.

Coursera

Another online program is the for-profit educational firm Coursera. It was founded by Stanford University professors. It had over seven million users in 2014. More than 108 institutions participate, including the University of California at Irvine, Duke University, the University of Pennsylvania, Princeton University, and others. Coursera also works with the U.S. State Department offering courses for the military stationed in several countries.

The more than 600 courses are offered in various disciplines such as physics, mathematics, engineering, biology, medicine, business, computer science, and humanities. The courses typically include video lectures, quizzes, exercises, and sometimes a final exam. Web forums allow students to meet face-to-face. The courses are generally 6-10 weeks long.

Education may be the key to prosperity in countries around the world. There are several experimental approaches today. Distance learning using online programs such as edX and Coursera may be one way to teach and to conduct research worldwide.

Special Training Programs

Management development must take an open-system approach that responds to the needs and demands of the external environment. There is an increasing awareness of the need for training programs specifically designed for members of minority groups and for the physically handicapped. Many firms have made special efforts to train these people so that they may utilize their full potential while contributing to the aims of the enterprise.

Companies may also offer special programs on selected subjects. The topic of ethics may be discussed to give the workforce guidelines on ethical behavior. The subject of corporate culture may be addressed in a formal or informal manner. Japanese companies in particular are known for making special efforts to instill the company philosophy in employees to promote a desirable corporate culture.

Leadership Perspective

Cisco's Leadership Talent Development in India and Elsewhere[11]

For several years, Cisco has focused on emerging markets. For example, the company used a hyperactive approach for recruiting and developing people in India. The second headquarters in Bangalore allows Cisco to recruit from the local talent. In addition, Cisco started the Global Talent Acceleration Program operating in Saudi Arabia, Jordan, and South Africa, looking for people who worked in two continents and speak two languages. The recruits get six months training in selling and finance. Mentoring is done by assigning those recruits to experienced managers. This program encourages employees to contribute $100 to help micro-startups in the rural areas in India. The idea is that another “Bill Gates” may be discovered.

EVALUATION AND RELEVANCE OF TRAINING PROGRAMS

Determining the effectiveness of training programs is difficult. It requires measurements against standards and a systematic identification of training needs and objectives.

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In general, development objectives include (1) an increase in knowledge, (2) development of attitudes conducive to good managing, (3) acquisition of skills, (4) improvement of management performance, and (5) achievement of enterprise objectives.

If training is to be effective, it is extremely important that the criteria used in the classroom situation resemble as closely as possible criteria relevant to the working environment. Manager development requires a situational approach in which training objectives, techniques, and methods are sufficiently congruent with the values, norms, and characteristics of the environment.

Innovative Perspective

Making Management Education Relevant

In order to make business courses more meaningful, many schools invite guest speakers from industry to share their experiences. This creates close ties between business schools and enterprises. Executives become aware of the quality of each school's curriculum, and students may find it advantageous to know about the companies when they are looking for a job. Moreover, executives often serve on school advisory boards, and this makes the schools aware of the needs of the business community. However, this does not mean that market-driven schools should adopt any management fad. Instead, management education must be broad enough to encompass the teachings of all key managerial activities in planning, organizing, staffing, leading, and controlling.

MANAGING CHANGE[12]

The forces for change may come from the environment external to the firm, from within the organization, or from the individuals themselves.

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Changes that Affect Manager and Organization Development

Several trends, some of them already occurring, will have implications for developing human resources:

- Education extends into the adult life. Lifelong learning becomes a necessity, and educational institutions and enterprises must recognize the special educational needs of adults.
- The proportion of knowledge workers will increase and the need for skill workers will decrease, which may require more training in knowledge, conceptual, and design skills.
- The shift from manufacturing to service industries requires retraining in preparation for new positions.
- The choice of educational opportunities will expand. For example, many companies already are conducting their own training programs.
- There may be greater cooperation and interdependence between the private and the public sector, at least in some countries such as Canada.
- Internationalization will continue, so managers must learn to communicate with and to adapt to managers in other countries. Companies need to train with a global perspective.

There are various ways to respond to these forces. One approach is simply to react to a crisis. Unfortunately, this is usually not the most effective response. Another approach is to deliberately plan the change. This may require new objectives or policies, organizational rearrangements, or a change in leadership style and organization culture.

Techniques for Initiating Change

Organizations may be in a state of equilibrium, with forces pushing for change on the one hand and forces resisting change by attempting to maintain the status quo on the other. Kurt Lewin expressed this phenomenon in his **field force theory**, which suggests that an equilibrium is maintained by *driving* forces and *restraining* forces (Figure 13-3).[13] In initiating change, the tendency is to increase the driving forces. This may indeed produce some movement, but it usually also increases resistance by strengthening the restraining forces. Another approach, one that is usually more effective, is to reduce or eliminate the restraining forces and then move to a new level of equilibrium. In organizations, a change in policy is less resisted when those affected by it participate in the change.

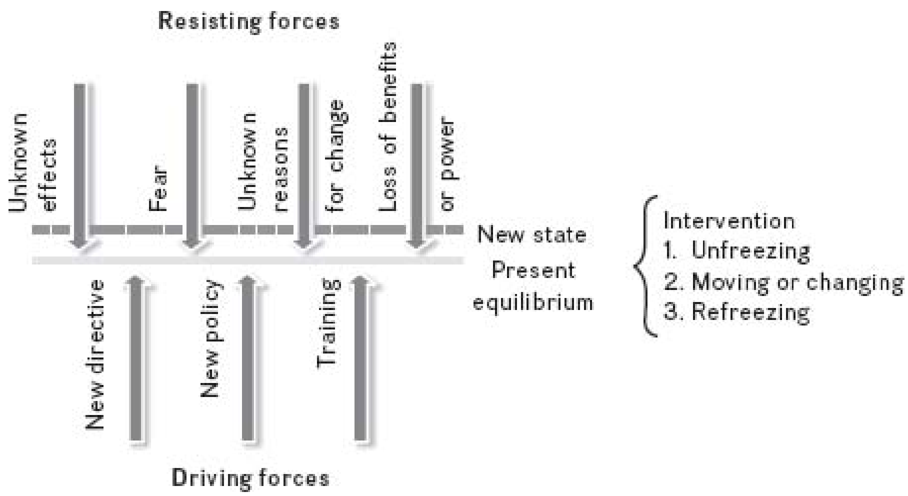

FIGURE 13-3 Moving an organizational equilibrium

The change process involves three steps: (1) unfreezing, (2) moving or changing, and (3) refreezing.[14] The first stage, unfreezing, creates the motivation for change. If people feel uncomfortable with the present situation, they may see the need for change. However, in some cases, an ethical question may arise regarding the legitimacy of deliberately creating discomfort that may initiate change.

The second stage is the change itself. This change may occur through assimilation of new information, exposure to new concepts, or development of a different perspective. The third stage, refreezing, stabilizes the change. Change, to be effective, has to be congruent with a person's self-concept and values. If the change is incongruent with the attitudes and behaviors of others in the organization, chances are that the person will revert to the old behavior. Thus, reinforcement of the new behavior is essential.

Resistance to Change

There are many reasons why people resist change:

- What is not known causes fear and induces resistance. An organizational restructuring can leave a person uncertain about its effect on his or her job. People want to feel secure and have some control over the change.
- Not knowing the reason for the change also causes resistance. In fact, it is often unclear to those affected why the change is necessary at all.
- Change may also result in a reduction of benefits or a loss of power.

Reduction of resistance can be achieved in many different ways. The involvement of organization members in planning the change can reduce uncertainty. Communication about proposed changes also helps clarify the reasons or effects of the changes. Some approaches focus on the people involved in the change and others involve changes in organization structure or technology. The sociotechnical systems approach, shown in Figure 1-3 in Chapter 1, suggests that effective organization requires consideration of both the social and the technical dimensions in an enterprise.

Entrepreneurial Perspective

How Do Entrepreneurial Managers Initiate Change in Their Firms?[15]

When faced with a turnaround situation, how do entrepreneurial managers initiate change in their firms? Joe Mandato is the managing director with De Novo Ventures in Palo Alto, California. In this role, he, on occasion, has stepped in as an interim CEO for a De Novo portfolio company[16] that is in need of a new direction or turnaround strategy. Generally, this means that the firm may be overspending without a clear or effective strategy and direction. And, given its stage, there may not be economic justification or need for a full-time CEO.

Mandato commented on his process for turning around a challenged start-up venture. After recognizing the shortfalls of a firm and taking on the responsibility of leadership, the first step is to assess the current team that is in place. Who is making things happen for the firm and who is not? A reduction in force of the management team and staff is often called for, and this reduction should happen as quickly as possible in a definitive manner, that is, dismissing all employees not performing or those who are not essential to the firm's future. It is important to make staff reductions in one wave so that those who remain with the firm need not fear for their jobs; rather, they can be confident in their roles with the firm and focus on reestablishing the firm on solid ground. Next, gaps in needed talent should be identified and filled. The hiring process for permanent employees should be slow and methodical. Urgent need for certain positions can be met through contracting with outside third parties, even at senior levels of the organization. Temporary staffing allows the firm flexibility and also reduces costs. In this process the goals of the firm should be recalibrated and communicated to the remaining and new staff, and "buy in" needs to be obtained from these key people.

Mandato concluded that performance appraisal of remaining managers and staff should be done through a formal process-matching target metrics to actual achievement on a quarterly basis. The target metrics should be set jointly with the firm's employees while keeping in mind that the tasks of start-up firm employees will be broader in range than for established organizations.

ORGANIZATIONAL CONFLICT

Conflict is a part of organizational life and may occur within the individual, between individuals, between the individual and the group, and between groups. While conflict is generally perceived as dysfunctional, it can also be beneficial because it may cause an issue to be presented in different perspectives. Cognitive conflict and debating of ideas are often seen as productive, while affective conflict and personal disagreements are typically seen as unproductive. As one top executive of a major company maintained, if there was no conflict on an issue, it could not have been sufficiently analyzed, and the final decision on the issue was usually postponed until all aspects were critically evaluated.

Conflict is a part of organizational life and may occur within the individual, between individuals, between the individual and the group, and between groups.

Sources of Conflict

There are many potential sources of conflict. Today's organizations are characterized by complex relationships and a high degree of task interdependence, so friction can easily occur. Moreover, the goals of the parties are often incompatible, especially when the parties compete for limited resources. People also have different values and different perceptions of issues. A production manager may take the position that streamlining the product line and concentrating on a few products can make the organization more productive, while a sales manager may desire a broad product line that will satisfy diverse customer demands. An engineer may want to design the best product regardless of cost or market demand considerations.

Conflict can arise from other sources as well. There may be conflict between people in line and staff positions. A superior's autocratic leadership style may cause conflict. Differing educational backgrounds are potential sources of conflict. Perhaps, most often mentioned is lack of communication. Many of these topics are discussed in various chapters of this book.

Managing Conflict

Conflict can be managed in different ways, some focusing on interpersonal relationships and others on structural changes. Avoidance of the situation that causes conflict is an example of an interpersonal approach. Another way of coping with conflict is through smoothing, emphasizing the areas of agreement and common goals and de-emphasizing disagreements. A third way is forcing, pushing one's own view on others; this will, of course, cause overt or covert resistance. A traditional way of coping with conflict is to compromise, agreeing in part with the other person's view or demand.

Attempts can also be made to change the behavior of individuals, a very difficult task indeed. At times, it may also be possible to reassign an individual to another organizational unit. In many situations, conflict is resolved by a person higher up in the organization who has sufficient authority to decide an issue. However, if the solution is perceived as being unfair, the loser may attempt to get even with the winner at a later time, thus perpetuating the conflict. In the problem-solving approach to organizational conflict, differences are openly confronted and the issues are analyzed as objectively as possible.

Conflict can be managed in different ways, some focusing on interpersonal relationships and others on structural changes.

Another way of coping with conflict is to make structural changes. This means modifying and integrating the objectives of groups with different viewpoints. Moreover, the organization structure may have to be changed and authority-responsibility relationships clarified. New ways of coordinating activities may have to be found. Tasks and work locations can also be rearranged. In one workroom in a firm, for example, machines were placed in a way that prevented conflicting parties from interacting with one another. Often, one must not only decide on the necessary changes, but also select the appropriate process. For this reason, the next section focuses on OD.

ORGANIZATION DEVELOPMENT

As explained earlier, OD is a systematic, integrated, and planned approach to improving enterprise effectiveness. It is designed to solve problems that decrease operating efficiency at all levels. Such problems may include lack of cooperation, excessive decentralization, and poor communication.

The techniques of OD may involve laboratory training (e.g., people communicating in a group situation), managerial grid training, and survey feedback. Some OD practitioners also use team building, process consultation, job enrichment, organizational behavior modification, job design, stress management, career and life planning, and management by objectives as part of their approach.

The Organization Development Process

OD is a situational or contingency approach to improving enterprise effectiveness. Although various techniques are utilized, the process often involves the steps shown in Figure 13-4. An example can illustrate the application of the model.

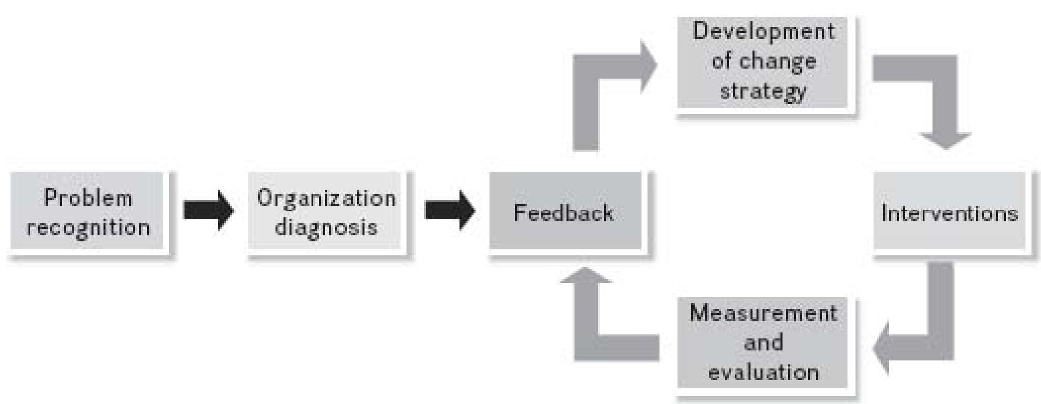

FIGURE 13-4 A model of the organization development process

Adapted from H. M. F. Rush, **Organizational Development: A Reconnaissance** (New York: National Industrial Conference Board, Inc., 1973), p. 6. Used by permission.

Consider a firm that experiences certain problems: conflict between organizational units, low morale, customer complaints, and rising costs *(problem recognition* in the model). The chief executive contacts an OD expert to discuss the situation. The two agree on the necessity of an *organizational diagnosis.* The consultant then collects information from several organizational units, using questionnaires, interviews, and observation. The data are analyzed and prepared for feedback.

The executive confers with other managers to set up a meeting with them. At the meeting, after some introductory comments, the consultant presents the findings under the headings “relations between departments,” “enterprise goals,” and “customer relations” *(feedback)*. The group then ranks the problems in order of their importance. With the guidance of the consultant, the group discusses the difficulties, identifies the underlying causes, and explores possible solutions.

The role of the consultant is that of a coach facilitating the process. Short lectures and exercises on decision-making, team building, and problem solving are integrated into the process. At times, subgroups are established to deal with specific issues. The emphasis is on openness and objectivity. The meeting ends with an agreement on a *change strategy.*

The specific *interventions* may include a change in the organization structure, a more effective procedure for handling customer complaints, and the establishment of a team charged with the responsibility of implementing a cost reduction program. Furthermore, the group agrees to meet again in three months to *measure and evaluate* the effectiveness of the OD efforts.

Although three phases complete the OD cycle, the effort does not end there. Instead, OD becomes a continuous process-planned, systematic, and focused on change-that aims at making the enterprise more effective.

Innovative Perspective

Leading a Successful Team[17]

The position of the chief operating officer (COO) is often considered a stepping stone for the top position of the chief executive officer (CEO). But this may be changing in favor of teams that implement corporate strategy. Instead of having the

COO implementing the strategy, teams may carry out this task. This would eliminate a level in the organizational hierarchy.

The chief characteristic of teams is a shared commitment to a common purpose. Team members share accountability not only to each other, but also to the common aim. However, team skills have to be learned. Not all teams succeed; in fact, many fail.

What makes successful teams? Team members need to be trained in skills such as communication, listening, and more. They must learn about setting team objectives, staying focused, and making decisions that contribute not only to the team's goals, but also to the aims of the total organization. Moreover, the reward system must be based on team performance and less on individual accomplishments. Teams also need to have access to important information (which some top managers may not want to share), thus a culture of openness is essential. Perhaps, most important, team training is not an individual event or a one-time program, but a continuing process.

THE LEARNING ORGANIZATION

A learning organization is one that can adapt to changes in the external environment through continuous renewal of its structure and practices. Peter Senge, who popularized the concepts of the learning organization in his book *The Fifth Discipline,*[18] suggests five techniques that help the organization to learn: (1) systems thinking, (2) personal mastery, (3) mental models, (4) a shared vision, and (5) team learning. The learning organization is generally associated with concepts such as sharing the vision of the enterprise, self-examining the prevailing assumptions and practices, considering radically new organization structures, creating learning teams, and establishing linkages with parties outside the enterprise for generating new ideas and perspectives.

Learning organization An organization that can adapt to changes in the external environment through continuous renewal of its structure and practices.

David Garvin offers the following definition: “A learning organization is an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights.”[19] This means that organizations engage in systematic problem solving, experimenting, and continuously searching for new knowledge. There must also be tolerance for failure because experimentation may not succeed; the aim is, of course, to learn from past failures. The learning should not be restricted to one’s own experience. One can learn a great deal from others, inside and outside the organization. Learning from other organizations is often achieved through benchmarking, which requires the search for the best practices not only within the same industry, but also in other industries. What is learned needs to be shared through, for example, reports, plant tours, and education and training programs. Individuals or groups should be encouraged to share their specialized knowledge and disseminate it throughout the organization. Acquiring knowledge is not enough; knowledge has to be applied. Unless behavior is changed, little is gained from the efforts of creating a learning organization. Therefore, progress and improvement need to be measured through questionnaires, surveys, interviews, and observation of behavior. Department stores may, for example, use shoppers to assess the service of their sales assistants. Assessors at the department store L.L. Bean shop by telephone to evaluate the service of its operators. A comprehensive learning audit may include a variety of measurements.

www.llbean.com

SUMMARY

Manager development refers to the progress a manager makes in learning how to manage effectively. Frequently, it also pertains to development programs. OD, on the other hand, is a systematic, integrated, and planned approach to making the whole organization or an organizational unit effective.

Good results can be achieved through a systematic approach to manager development and training. On-the-job-training includes planned progression, job rotation, creation of “assistant to” positions, temporary promotions, use of committees and junior boards, and coaching. Manager development may include a variety of internal and external training programs.

There are many sources of conflict. Ways of managing conflict include avoiding the situation, smoothing, forcing, compromising, changing behavior, reassigning individuals, resolving the conflict at higher levels, and problem solving. Another approach is to make structural changes: modifying objectives and developing new methods of coordination as well as rearranging authority-responsibility relationships, tasks, and work locations.

The typical OD process includes recognition of problems, diagnosis of an organization, feedback of information on the organization, development of a change strategy, interventions, and measurement and evaluation of the change efforts. The learning organization adapts quickly to changes in the environment through continuous learning.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Manager development
- Managerial training
- Organization development
- Manager development process
- On-the-job-training
- Internal and external training and development
- Business simulation and experiential exercises
- E-training
- edX and Coursera Online Programs
- Field force theory
- Sources of organizational conflict
- Ways of managing organizational conflict
- Organization development process

- Learning organization

FOR DISCUSSION

1. It has been argued that firms have an obligation to train and develop all employees with managerial potential. Do you agree? Why or why not?
2. What are some typical failures in manager development and training? Can you explain these failures? What would you recommend to overcome the shortcomings?
3. Evaluate the advantages and limitations of different approaches to on-the-job- training.
4. In the job that you now have or that you expect to have in the future, what kind of coaching and management development would be most beneficial to you?
5. What are the main characteristics of OD? How does OD differ from manager development? Do you think OD might work in your organization? Explain why or why not.

EXERCISE/ACTION STEPS

1. Select an organization that you know and analyze its management development efforts.
2. What kinds of conflicts have you experienced in an organization with which you are familiar? What were the causes of the conflicts? What was done, if anything, about resolving these conflicts?
3. Try an online course that offers a badge of progress for your LinkedIn profile. LinkedIn provides online training that may serve this purpose.

INTERNET RESEARCH

1. Search the Internet for "open university." What are the advantages and disadvantages of the Open University? Compare the Open University with the traditional university.
2. Search for "organization development" on the Internet. Discuss your findings with the class.

Entrepreneurial Case

Attracting Talent for the High Intensity Venture

How do entrepreneurial managers staff their firms? Do they look for a certain kind of person to work in a high growth venture? How do they manage the cost of staff when cash is a prime concern for new ventures on a budget? To what extent do entrepreneurial managers employ outsourcing to maximize the efficiency of their staffing decisions? Finally, what attracts individuals to work in high intensity environments with long work hours and an uncertain future?

We know that success or failure of firms frequently rests on the ability of the firms' managers to execute an appropriate strategy for the company. People make the firm, and good people are necessary for the firm to succeed. But does this equation differ somehow in an entrepreneurial context?

High growth entrepreneurial firms in the Silicon Valley are noted for the high demands they place on their employees. These high demands are a function of the necessity for a small number of start-up firms' managers to accomplish a multitude of tasks. Entrepreneurial managers must not only make and sell superior products, they must also raise significant financing to fund the operations and investment in the company, develop a network of industry relationships, build an attractive company brand, negotiate legal issues on corporate structure and intellectual property protection, and of course, hire more staff. In the early months and years of a high growth venture, all or most of these tasks frequently fall on the firm's early leadership. Given the high demands of a new high growth venture and the necessity of each person to fill numerous tasks, the early hiring decisions are crucial to the survival and success of the enterprise.[20]

Due to the heavy workload and overlapping responsibilities of high growth startup ventures, early employees need to possess a tolerance for increased levels of stress and ambiguity. The stress and ambiguity come not only from the workload of these positions, but also from the uncertainty of the firm's future.[21] Further, compensation for employees often comes in the form of stock options in addition to salaries that are sometimes less than what might be received at larger organizations. This compensation package (lower salary coupled with stock options) is consistent with the low cash position of a new venture where cash must be conserved wherever possible. Further, stock options tend to align the priorities of the new employee better with the firm than pure cash compensation. Still, new employees must truly *buy into* the firm they are joining, as their compensation package is more closely aligned to the firm's success than at larger established companies. Hiring managers of start-up ventures need to clarify these risks and rewards to potential employees and extend offers only to those whose tolerance for risk and ability to perform under stress match the needs of the company.

Other ways that entrepreneurial managers may staff effectively but also conserve cash is the prudent use of outsourcing and offshoring. Outsourcing, as discussed in Chapter 20, is essentially the movement of some elements of a firm's activities to outside vendors who are more effective or efficient in the production of aspects of a firm's value chain of activities. Offshoring is the movement of certain business processes from one country to another country.[22] This movement of activities may be either through international subsidiaries owned by the firm or foreign contractors. India, with its large supply of well-educated English-speaking workers at low wages, is the number one destination for U.S. firms seeking to reduce costs of development and implementation of their business model. In fact, according to a study completed by the Santa Clara University, more than half of Silicon Valley firms outsource some of their activities internationally and more than half of those outsourced activities are in India.[23] For example, Cisco Systems, a Silicon Valley technology powerhouse, recently announced it is investing $1.2 billion in Bangalore, India, to establish a new R&D campus that will employ 3,000 people.[24] China is also an increasingly popular destination of offshoring of a firm's activities. For example, Hewlett-Packard has nearly 5,000 employees in China as of late 2006.[25]

The offshoring of activities is not confined to large multinational firms. New growth enterprises that expect funding by venture capitalists must consider potential outsourcing and offshoring strategies for their firms. Funding decisions for new ventures are based on financing those activities that bring distinctive advantage to a new company. Savvy venture firms are most interested in financing those activities that lead directly to competitive advantage in a growing market and expect the management team to complete other noncore activities as efficiently as possible. These efficiencies can often be found in coherent outsourcing and offshoring tactics. In fact, start-ups are increasingly being prodded to hire overseas as a cost strategy.[26] However, this process needs to be intertwined in a long-term strategy of rationalizing a firm's production and distribution process rather than be a knee-jerk reaction to an impulse to cut costs, as managing an overseas workforce requires time in oversight and entails some risks such as loss of technology, quality control, and others.

In sum, what attracts employees to a start-up firm and how are these employees best managed? Similar to entrepreneurs themselves, employees for new high growth firms knowingly accept some additional risk for potentially higher rewards, both financial and aspirational. It is up to the entrepreneurial leaders of a firm to first find the right types of persons who are motivated and excel in this business environment, and then to continue to motivate new staff to excel through the articulation of a vision of the firm's purpose that goes beyond pure profits. Guy Kawasaki, in his most recent book, *The Art of the Start*, discusses the importance of firms to "make meaning" with their enterprises.[27] With this, he refers to the impact that firms have on society beyond revenues and expenses. Rather, what part does the firm play in enhancing the world we live in? Kawasaki emphasizes that entrepreneurial managers need to recruit their employees every day to make sure they want to come back the next day. It is this continuous motivational energy and the articulation of an inspirational vision that attracts and retains staff in a start-up firm and what is essential to effective entrepreneurial management.

International Perspective

Jack Welch Leading Organizational Change at GE[28]

When Jack Welch, the chairman and CEO at General Electric (GE) retired in 2001, he could look back at a very successful career. He became CEO in 1981 at the age of 45. At that time, GE had a very complex organization structure with considerable bureaucratic rules.

One of his first changes was to initiate a strategy formulation process with the guideline that each of the businesses should be number 1 or 2 in their respective areas. If this was not the case, managers had the options of fixing the problem, selling their particular business, or closing it. In an effort to streamline the organization, Welch removed the sector level and eliminated thousands of salaried and hourly employee positions. Because of these drastic measures, he earned the nickname "Neutron Jack." The reorganization increased the span of management (also called span of control) for many managers so that they would have 10 or even 15 subordinates.

The restructuring was followed by changing the organization culture and the managerial styles of GE's managers. One such program was the Work-Out. Groups of managers were assembled to share their views openly in three-day sessions. At the beginning of the meetings, the superior presented the challenges for his or her organizational unit. Then, the superior had to leave, requesting the groups to find solutions to the problems. Facilitators helped these discussions. On the last day, the superior was presented with problem solutions. He or she then had three choices: to accept the proposal, not to accept it, or to collect more information. This process put great pressure on the superior to make decisions.

Another program to improve effectiveness and efficiency was Best Practices. The aim was to learn from other companies how they obtained customer satisfaction, how they related to their suppliers, and in what ways they developed new products. This helped the GE people to focus on the processes in their operations that would improve the company's performance.

Jack Welch was personally involved in developing managers at GE's training center in Crotonville. Leaders, Welch suggested, are not only those who achieve results, but also those who share the values of the company. Managers who shared the company values but did not achieve results got another opportunity to improve performance, while managers who achieved results but did not share the values received coaching aimed at changing their value orientation. There was little hope for managers who did not achieve results nor shared the company's values.

The stretch initiative at GE emphasized "dream targets" with little consideration of how to achieve them. This approach is similar to the setting of creative objectives used in some management by objectives programs by other companies. These dream targets did not replace the traditional objective-setting approach but supplemented it.

To improve quality, the Six Sigma approach, which was used by Motorola, was introduced at GE. The Six Sigma program suggests a quality level of not more than 3.4 defects for a million operations. Managers were required to participate in the program, and their bonuses were related to the achievement of the quality level. With the strong conviction of relating performance to rewards, an appraisal system was also introduced that ranked employees in five categories, ranging from the top 10 percent to the bottom 10 percent. The top 25 percent received stock options as their reward.

While some managers were in favor of the organizational transformation because they felt greater freedom and were rewarded for good performance and value sharing, others saw flaws in the system.

Questions

1. Do you think it is ethical to engage in restructuring and delayering that result in massive reduction of positions?
2. How would you feel if you were the boss in the Work-Out session being asked to leave the meeting while your subordinates discuss problems and suggest solutions to which you have to say "yes," "no," or "require further study?"
3. Why would other companies agree to their best practices being studied?
4. What do you think of evaluating the performance of managers not only on the achievement of results, but also on the degree to which they share the organizational values?
5. How would you feel about setting unrealistic (stretch) objectives?
6. Should managers be ranked within their organizational unit? What would you suggest if one such unit is far superior to another unit with most of its managers being generally good managers and yet you still have to identify the bottom 10 percent?
7. Overall, how would you evaluate GE's approach to organizational change? What are the advantages and possible problems?

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Part 4 Closing

Major Principles or Guides for the Managerial Function of Staffing

As mentioned in the Part Closings for planning and organizing, a complete set of empirically proven, interrelated principles has not been discovered and codified; experience and observation of managing indicate certain fundamental managerial principles or guides.

Each principle is given a number with a letter that represents the type of managerial function. The letter "S" means that the principle pertains to staffing.

MAJOR PRINCIPLES OR GUIDES FOR STAFFING

There are no universally accepted staffing principles. Nevertheless, those listed below are useful as guidelines for understanding the staffing function.

The Purpose of Staffing

The purpose of staffing is summarized by the following principles.

S1. *Principle of the objective of staffing*. The objective of managerial staffing is to ensure that organizational roles are filled by qualified personnel who are able and willing to occupy them.

S2. *Principle of staffing*. The clearer the definition of organizational roles and their human resource requirements, and the better the techniques of manager appraisal and training employed, the higher the managerial quality.

The first principle stresses the importance of the desire and ability to undertake the responsibilities of management. There is considerable evidence of failure to achieve results when these qualities are lacking. The second principle rests on an important body of knowledge concerning management practices. Organizations that have no established job definitions, no effective appraisals, and no system for training and development will have to rely on coincidence or outside sources to fill positions with able managers. On the other hand, enterprises applying the systems approach to staffing and human resource management will utilize the potentials of people in the enterprise more effectively and efficiently.

The Process of Staffing

The following principles indicate the means for effective staffing.

S3. *Principle of job definition.* The more precisely the results expected of managers are identified, the more the dimensions of their positions can be defined.

S4. *Principle of managerial appraisal.* The more clearly verifiable objectives and required managerial activities are identified, the more precise can be the appraisal of managers against these criteria.

S5. *Principle of open competition.* The more an enterprise is committed to the assurance of quality management, the more it will encourage open competition among all candidates for management positions.

The first principle is similar to the principle of functional definition in organizing. Since organizational roles are occupied by people with different needs, these roles must have many dimensions that induce managers to perform, such as pay, status, power, discretion, and job satisfaction.

The second principle suggests that performance should be measured both against verifiable objectives—as in an appraisal approach based on management by objectives-and against standards of performance as managers. The appraisal of managers as managers considers how well the key managerial activities within the functions of planning, organizing, staffing, leading, and controlling are carried out.

Violation of the open competition principle has led many firms to appoint managers with inadequate abilities. Although social pressures strongly favor promotion from within the enterprise, these forces should be resisted whenever better candidates can be brought in from the outside. At the same time, the application of this principle obligates an organization to appraise its people accurately and to provide them with opportunities for development.

S6. Principle of management training and development. The more management training and development is integrated with the management process and enterprise objectives, the more effective the development programs and activities will be.

S7. *Principle of training objectives.* The more precisely the training objectives are stated; the more likely are the chances of achieving them.

S8. *Principle of continuous development.* The more an enterprise is committed to managerial excellence, the more it requires that managers practice continuous self-development.

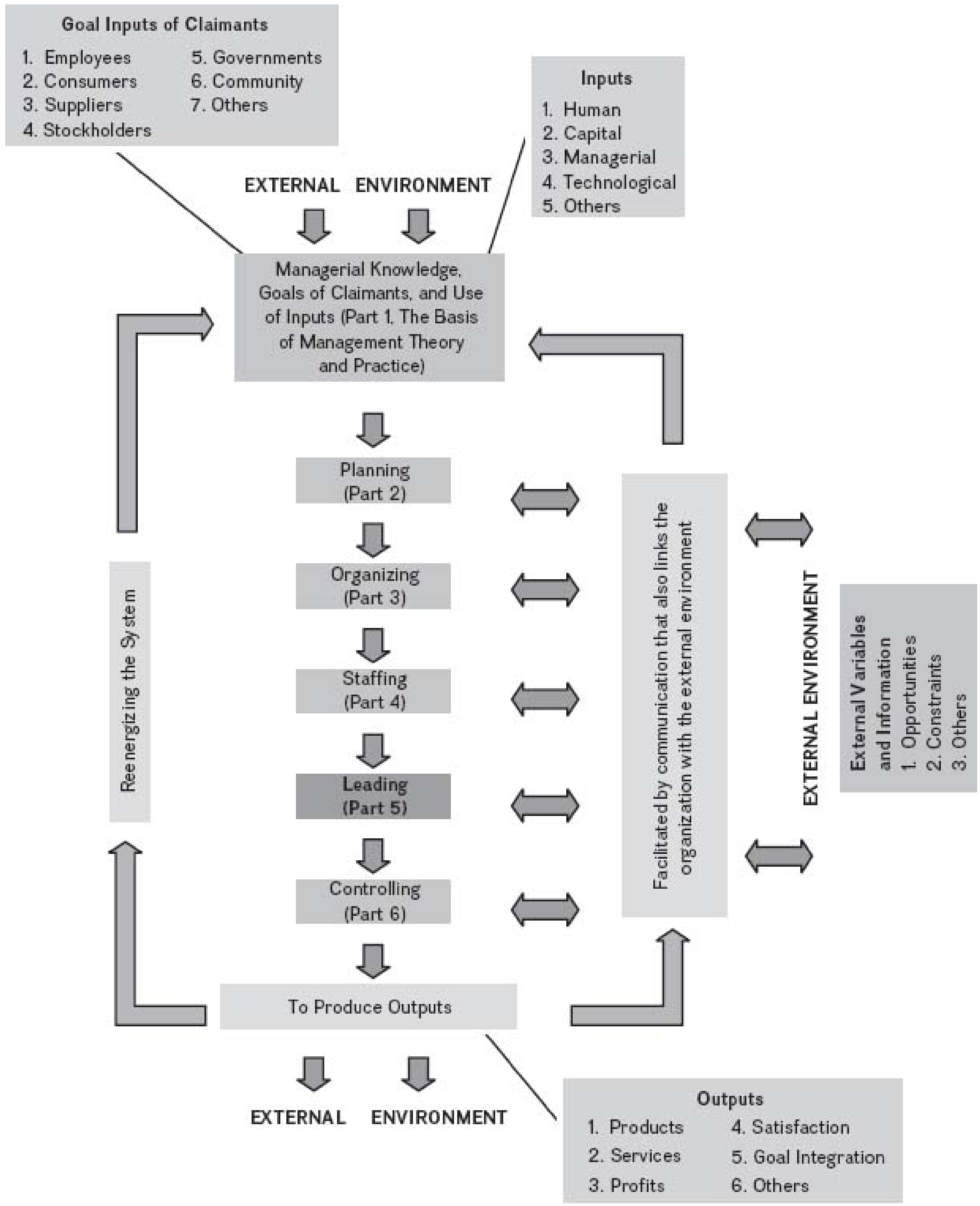
The first of these three principles suggests that, in the systems approach, training and development efforts are related to the managerial functions, the aims of the enterprise, and the professional needs of managers.

The analysis of training needs is the basis for determining training objectives that give direction to development and facilitate the measurement of the effectiveness of training efforts. The second principle brings into focus the contribution that training makes to the purpose of the enterprise and the development of individuals.

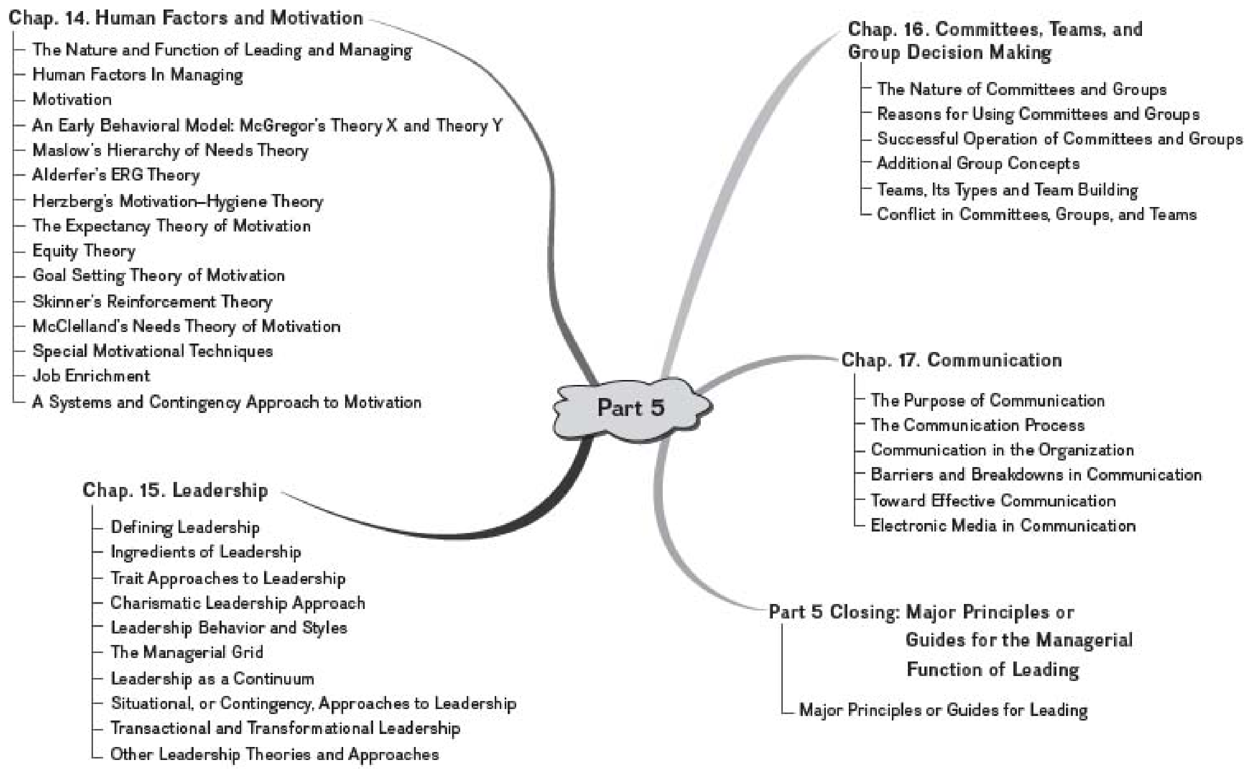
The third principle reminds us that in a fast-changing and competitive environment, managers cannot stop learning. Instead, they have to update their managerial knowledge continually, reevaluate their approaches to managing, and improve their managerial skills and performance to achieve results.

PART 5

Leading



SYSTEMS APPROACH TO MANAGEMENT: Leading



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CHAPTER

14

Human Factors and Motivation

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Define the nature of leading and leadership
2. Describe the basic human factors that affect managing
3. Explain the meaning of motivation
4. Describe the various theories of motivation and their strengths and weaknesses
5. Analyze motivational techniques, with emphasis on the role of money, participation, quality of working life (QWL), and job enrichment
6. Present a systems and situational approach to motivation

Management and leadership are often thought of as the same thing. Although it is true that the most effective manager will almost certainly be an effective leader and that leading is an essential function of managers, there is more to managing than just leading. As indicated in previous chapters, managing involves doing careful planning, setting up an organization structure that will aid people in achieving goals, and staffing the organization structure with people who are as competent as possible. The measurement and correction of people's activities through controlling is also an important function of management, as Part 6 will show. However, all these managerial functions accomplish little if managers do not know how to lead people or understand the human factors in their operations in such a way as to produce the desired results.

The managerial function of **leading** is defined as the process of influencing people so that they will contribute to organizational and group goals. As the discussion of this function will show, it is in this area that the behavioral sciences make their major contribution to managing. In its analysis of the pertinent knowledge in leading, Part 5 of this book will focus on the human factors, motivation, leadership, and communication.

Leading The process of influencing people so that they will contribute to organizational and group goals.

In this chapter, discussion centers on a variety of human factors. Managing requires the creation and maintenance of an environment in which individuals work together in groups toward the accomplishment of common objectives. This chapter emphasizes the importance of knowing and taking advantage of human and motivating factors, but that does not mean managers should become amateur psychiatrists. The manager’s job is not to manipulate people, but rather to recognize what motivates people.

HUMAN FACTORS IN MANAGING

It is obvious that, while enterprise objectives may differ somewhat between organizations, employees also have needs and objectives that are especially important to them. Through the function of leading, managers help people see that they can satisfy their own needs and utilize their potential while contributing to the aims of an enterprise. Managers should thus have an understanding of the roles assumed by people and the individuality and personalities of people.

Multiplicity of Roles

Individuals are much more than a productive factor in a management's plans. They are members of social systems of many organizations; they are consumers of goods and services, and thus they vitally influence demand; and they are members of families, schools, churches, trade associations, and political parties. In these different roles, they establish laws that govern managers, ethics that guide behavior, and a tradition of human dignity that is a major characteristic of our society. In short, managers and the people they lead are interacting members of a broad social system.

No Average Person

People act in different roles, but they are also different themselves. There is no average person. Yet, in organized enterprises, the assumption is often made that there is. Firms develop rules, procedures, work schedules, safety standards, and position descriptions—all with the implicit assumption that people are essentially alike. Of course, this assumption is necessary to a great extent in organized efforts, but it is equally important to acknowledge that individuals are unique—they have different needs, different ambitions, different attitudes, different desires for responsibility, different levels of knowledge and skills, and different potentials.

Unless managers understand the complexity and individuality of people, they may misapply the generalizations about motivation, leadership, and communication. Principles and concepts, although generally true, have to be adjusted to fit specific situations. In an enterprise, not all the needs of individuals can be completely satisfied, but managers do have considerable latitude in making individual arrangements. Although position requirements are usually derived from enterprise and organization plans, this fact does not necessarily exclude the possibility of arranging the job to fit the person in a specific situation.

Innovation Perspective

Interview with Dr. Kern Peng, Project Manager with Intel Corporation

Dr. Kern Peng has more than 26 years of people and project management experience in engineering and manufacturing, with the last 20 years at Intel Corporation. He has extensive skills in engineering and manufacturing management and has proven results in finding innovative solutions to business and engineering problems. He has been accorded more than 50 career awards in the areas of engineering design; software development; technical paper publication; problem resolution; project management and execution; teamwork; and leadership.

http://www.khanacademy.org/

Given Dr. Peng's extensive experience in innovation with one of the world's technology leaders, we asked him how Intel encourages innovation among its employees. He responded: "Intel believes that setting up the right corporate culture has significant impact on innovation. Under the Intel Values, you will find phrases such as 'Foster innovation and creative thinking,' 'Embrace change and challenge the status quo,' and 'Encourage and reward informed risk taking.' The Intel Values are posted in all conference rooms and printed on a card with the calendar given to every employee to be attached with the ID badge." Dr. Peng continued: "In addition to process innovation and product innovation, strategic innovation (i.e. new market) and continuous improvement are also under the innovation umbrella at Intel, which essentially means innovation is in every employee's job scope, from executives, to engineers, to technicians. To encourage innovation, courses such as 'Innovation 101 for Employees' and 'Innovation 101 for Managers' are offered. An internal web site called 'Innovation center' is in place to recommend an approach to bring innovation into a daily work environment and offer systemic innovation tools and resources to assist teams and individuals to increase the use of innovation in their daily work. Employees can submit ideas on line and rewards are given to selected ideas. Annual Innovation Day is arranged with series of activities targeted at building and promoting Intel's technical and innovation leadership."

The Importance of Personal Dignity

Managing involves achieving enterprise objectives. Achieving results is important, but the means must never violate the dignity of people. The **concept of individual dignity** means that people must be treated with respect, no matter what their position in the organization. The president, vice president, manager, first-line supervisor, and worker all contribute to the aims of the enterprise. Each is unique, with different abilities and aspirations, but all are human beings and all deserve to be treated as such.[1]

Concept of individual dignity People must be treated with respect, no matter what their position in the organization.

Consideration of the Whole Person

We cannot talk about the nature of people unless we consider the whole person, not just separate and distinct characteristics such as knowledge, attitude, skills, or personality traits. A person has them all in different degrees. Moreover, these characteristics interact with one another and their predominance in specific situations changes quickly and unpredictably. The human being is a total person influenced by external factors. People cannot divest themselves of the impact of these forces when they come to work. Managers must recognize these facts and be prepared to deal with them.

MOTIVATION

Human motives are based on needs, whether consciously or subconsciously. Some are primary needs, such as the physiological needs for water, air, food, sleep, and shelter, and other needs may be regarded as secondary, such as self-esteem, status, affiliation with others, affection, giving, accomplishment, and self-assertion. Naturally, these needs vary in intensity and over time between individuals.

Motivation is a general term applying to the entire class of drives, desires, needs, wishes, and similar forces. To say that managers motivate their subordinates is to say that they do things which they hope will satisfy these drives and desires and induce the subordinates to act in a desired manner.

Motivation A general term applying to the entire class of drives, desires, needs, wishes, and similar forces.

Leadership Perspective

Self-Motivation

Managers are responsible for providing an environment conducive to performance. But individuals themselves are responsible for selfmotivation. One approach is through strategic career management (discussed in Chapter 12). George Odiorne, a management professor, scholar, and experienced consultant, made specific recommendations for motivating yourself. Here are some:

- Set a goal for yourself and do not lose sight of it. Lee Iacocca (former president of Chrysler) set the goal of becoming vice president at Ford Motor Company by age 35, and for 15 years this aim motivated him and guided his behavior.
- Supplement your long-term objectives with short-term goals and specific actions. It has been said that to get something done is to begin.
- Learn a challenging new task each year. Learning to become a manager does not stop with a bachelor's or master's degree in business. A degree is the real beginning, not the end, of learning. Learning and applying

microcomputer technology might be considered a challenging task.

- Make your job a different one. Set improvement objectives for your position. With some imagination, you probably can considerably increase your productivity.
- Develop an area of expertise. Build on your strengths or develop one of your weaknesses into strength. You might want to be known as the best accountant or the best engineer in your specific area of competence.
- Give yourself feedback and reward yourself. Setting verifiable goals provides you with a standard against which you can measure your performance. Why not have a special dinner to celebrate your accomplishments?

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AN EARLY BEHAVIORAL MODEL: McGREGOR'S THEORY *X* AND THEORY *Y*

One view about the nature of people has been expressed by Douglas McGregor in his Theory X and Theory Y.[2] Managing, McGregor suggests, must start with the basic question of how managers see themselves in relation to others. This viewpoint requires some thought on the perception of human nature. Theories X and *Y* are two sets of assumptions about the nature of people. McGregor chose these terms because he wanted neutral terminology without any connotation of being “good” or “bad.”

McGregor’s Theory *X* and Theory *Y* Two sets of assumptions about the nature of people.

Theory *X* Assumptions

The “traditional” assumptions about the nature of people, according to McGregor, are included in Theory X:

- Average human beings have an inherent dislike of work and will avoid it if they can.
- Because of this human characteristic of disliking work, most people must be coerced, controlled, directed, and threatened with punishment to get them to put forth adequate effort toward the achievement of organizational objectives.
- Average human beings prefer to be directed, wish to avoid responsibility, have relatively little ambition, and want security above all.

Theory Y Assumptions

McGregor sees the assumptions under Theory *Y*:

- The expenditure of physical and mental effort in work is as natural as play or rest.
- External control and the threat of punishment are not the only means for producing effort toward organizational objectives. People will exercise self-direction and self-control in the service of objectives to which they are committed.
- The degree of commitment to objectives is in proportion to the size of the rewards associated with their achievement.
- Average human beings learn, under proper conditions, not only to accept responsibility, but also to seek it.
- The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population.
- Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized.

These two sets of assumptions obviously are fundamentally different. Theory *X* is pessimistic, static, and rigid. Control is primarily external, imposed on the subordinate by the superior. In contrast, Theory *Y* is optimistic, dynamic, and flexible, with an emphasis on self-direction and the integration of individual needs with organizational demands.

There is little doubt that each set of assumptions will affect the way managers carry out their managerial functions and activities.

Clarification of the Theories

McGregor was apparently concerned that Theory *X* and Theory *Y* might be misinterpreted. The following points will clarify some of the areas of misunderstanding and keep the assumptions in proper perspective. First, theories *X* and *Y* assumptions are just that: they are assumptions only. They are not prescriptions or suggestions for managerial strategies. Rather, these assumptions must be tested against reality. Furthermore, they are intuitive deductions and not based on research. Second, theories X and *Y* do not imply "hard" or "soft" management. The "hard" approach may produce resistance and antagonism. The "soft" approach may result in laissez-faire management and is not congruent with Theory *Y*. The effective manager recognizes the dignity and capabilities as well as the limitations of people and adjusts behavior as demanded by the situation. Third, theories *X* and *Y* are not to be viewed as being on a continuous scale, with *X* and *Y* on opposite extremes. They are not a matter of degree; rather, they are completely different views of people.

Fourth, the discussion of Theory *Y* is not a case for consensus management nor is it an argument against the use of authority. Under Theory Y, authority is seen as only one of the many ways a manager exerts leadership. Fifth, the variety of tasks and situations requires different approaches to management. At times, authority and structure may be effective for certain tasks, as found in the research by John J. Morse and Jay W. Lorsch.[3] They suggest that different approaches are effective in different situations. Thus, the productive enterprise is one that fits the task requirements to the people and the particular situation. We shall describe in the following section various theories of motivation.

MASLOW'S HIERARCHY OF NEEDS THEORY

One of the most widely mentioned theories of motivation is the hierarchy of needs theory put forth by psychologist Abraham Maslow.[4] Maslow saw human needs in the form of a hierarchy, ascending from the lowest to the highest, and he concluded that when one set of needs is satisfied, this kind of need ceases to be a motivator.

Maslow's needs theory When one set of needs is satisfied, this kind of need ceases to be a motivator.

The Needs Hierarchy

The basic human needs, placed by Maslow in an ascending order of importance and shown in Figure 14-1, are:

FIGURE 14-1 Maslow's hierarchy of needs

1. *Physiological needs.* These are the basic needs for sustaining human life itself, such as food, water, warmth, shelter, and sleep. Maslow took the position that, until these needs are satisfied to the degree necessary to maintain life, other needs will not motivate people.
2. *Security or safety needs.* People want to be free of physical danger and fear of losing a job, property, food, or shelter.

3. *Affiliation or acceptance needs.* Since people are social beings, they need to belong, to be accepted by others.
4. *Esteem needs.* According to Maslow, once people begin to satisfy their need to belong, they tend to want to be held in esteem both by themselves and by others. This kind of need produces satisfactions such as power, prestige, status, and self-confidence.
5. *Need for self-actualization.* Maslow regards this as the highest need in his hierarchy. It is the desire to become what one is capable of becoming—to maximize one's potential and to accomplish something.

Questioning the Needs Hierarchy

Maslow's concept of a hierarchy of needs has been subjected to considerable research. Edward Lawler and J. Lloyd Suttle collected data on 187 managers in two different organizations over a period of 6-12 months.[5] They found little evidence to support Maslow's theory that human needs form a hierarchy. However, they did note that there are two levels of needs—biological and other needs—and that the other needs would emerge only when biological needs are reasonably satisfied. They found further that at the higher level the strength of needs varies with the individual: in some individuals social needs predominate, while in others self-actualization needs are strongest.

In another study of Maslow's needs hierarchy involving a group of managers over a period of five years, Douglas T. Hall and Khalil Nougaim did not find strong evidence of a hierarchy.[6] They found that, as managers advance in an organization, their physiological and safety needs tend to decrease in importance, while their needs for affiliation, esteem, and self-actualization tend to increase. However, they insisted that the upward movement of need prominence results from upward career changes and not from the satisfaction of lower-order needs.

ALDERFER'S ERG THEORY

The ERG theory by Clayton Alderfer is similar to Maslow's hierarchy of needs. However, the ERG theory has only three categories: existence needs (similar to Maslow's basic needs), relatedness needs (pertaining to satisfactorily relating to others), and growth needs (referring to selfdevelopment, creativity, growth, and competence).[7] Thus, ERG refers to the three categories of existence, relatedness, and growth. Alderfer suggests that one may be motivated by needs on several levels at the same time. For example, one may go to work to make a living (existence needs satisfaction) and at the same time one may be motivated by good relations with coworkers. Also, according to Alderfer, when people experience frustration on one level, they may focus on the needs at a lower-level needs category.

Alderfer's ERG theory People are motivated by existence, relatedness, and growth needs.

HERZBERG'S MOTIVATION-HYGIENE THEORY

Maslow's needs approach has been considerably modified by Frederick Herzberg and his associates.[8] Their research purports to find a **two-factor theory** of motivation. In one group of needs are things such as company policy and administration, supervision, working conditions, interpersonal relations, salary, status, job security, and personal life. These were found by Herzberg to be only *dissatisfiers* and not motivators. In other words, if they exist in a work environment in high quantity and quality, they yield no dissatisfaction. Their existence does not motivate in the sense of yielding satisfaction; their lack of existence would, however, result in dissatisfaction. Herzberg calls them *maintenance, hygiene*, or *job context factors.*

Herzberg's two-factor theory Dissatisfiers, also called maintenance, hygiene, or job context factors, are not motivators, while satisfiers are motivators and are related to job content.

In the second group, Herzberg lists certain *satisfiers—and* therefore motivators—all related to *job content.* They include achievement, recognition, challenging work, advancement, and growth in the job. Their existence will yield feelings of satisfaction or no satisfaction (not dissatisfaction). As Figure 14-2 indicates, the satisfiers and dissatisfiers identified by Herzberg are similar to the factors suggested by Maslow.

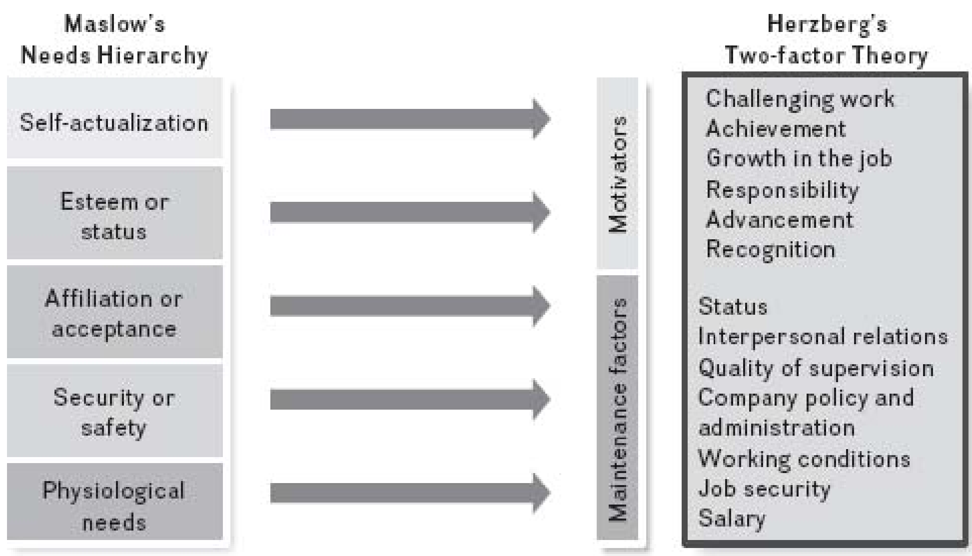

FIGURE 14-2 Comparison of Maslow's and Herzberg's theories of motivation

The first group of factors (the dissatisfiers) will not motivate people in an organization; yet, they must be present or dissatisfaction will arise. The second group or the job content factors were found to be the real motivators because they have the potential of yielding a sense of satisfaction. Clearly, if this theory of motivation is sound, managers must give considerable attention to upgrading job content.

The Herzberg research has not gone unchallenged. Some researchers have questioned Herzberg's investigation methods, which they said tended to prejudice the results. For example, the well-known tendency of people to attribute good results to their own efforts and to blame others for poor results is thought to have prejudiced Herzberg's findings. Other researchers, not following his methods, have arrived at conclusions that do not support the theory.

THE EXPECTANCY THEORY OF MOTIVATION

Another approach, one that many believe goes far in explaining how people are motivated, is the expectancy theory. One of the leaders in advancing and explaining this theory is the psychologist Victor H. Vroom. He holds that people will be motivated to do things to reach a goal if they believe in the worth of that goal and if they can see that what they do will help them in achieving it.[9] In a sense, this is a modern expression of what the German priest Martin Luther observed centuries ago when he said, "Everything that is done in the world is done by hope."

Vroom's expectancy theory People will be motivated to do things to reach a goal if they believe in the worth of that goal and if they can see that what they do will help them in achieving it.

In greater detail, Vroom's theory is that people's motivation toward doing anything will be determined by the value they place on the outcome of their effort (whether positive or negative) multiplied by the confidence they have that their effort will materially aid in achieving a goal. In his own terms, Vroom's theory may be stated as

$$\text{Force} = \text{Valence} \times \text{Expectancy}$$

where *force* is the strength of a person's motivation, *valence* is the strength of an individual's preference for an outcome, and *expectancy* is the probability that a particular action will lead to a desired outcome. When a person is indifferent about achieving a certain goal, a valence of zero occurs; there is a negative valence when the person would rather not achieve the goal. The result of either would be, of course, no motivation. Likewise, a person would have no motivation to achieve a goal if the expectancy were zero or negative. The force exerted to do something will depend on *both* valence and expectancy. Moreover, a motive to accomplish some action might be determined by a desire to accomplish something else. For example, a person might be willing to work hard to produce a product for a valence in the form of pay. Or a manager might be willing to work hard to achieve company goals in marketing or production for a promotion or pay valence.

The Vroom Theory and Practice

One of the great attractions of the Vroom theory is that it recognizes the importance of individual needs and motivations. It thus avoids some of the simplistic features of the Maslow and Herzberg approaches. It does seem more realistic. It fits the concept of harmony of objectives: individuals have personal goals that are different from organizational goals, but these can be harmonized. Furthermore, Vroom's theory is completely consistent with the system of managing by objectives.

The strength of Vroom's theory is also its weakness. His assumption that perceptions of value vary between individuals at different times and in different places appears to fit real life more accurately. It is consistent also with the idea that a manager's job is to *design* an environment for performance, taking into account the differences in various situations. On the other hand, the theory is difficult to apply in practice. Despite its difficulty in application, the logical accuracy of Vroom's theory indicates that motivation is much more complex than the approaches of Maslow and Herzberg seem to imply.

The Porter and Lawler Motivation Model

Lyman W. Porter and Edward E. Lawler derived a substantially more complete model of motivation, built in large part on expectancy theory. In their study, they applied this model primarily to managers.[10] It is summarized in Figure 14-3.

As this model indicates, the amount of effort (the strength of motivation and energy exerted) depends on the value of a reward plus the amount of energy a person believes is required and the probability of receiving the reward. The perceived effort and probability of actually getting a reward are, in turn, influenced by the experience of actual performance. Clearly, if people know they can do a job or if they have done it, they have a better appreciation of the effort required and know better the probability of getting a reward.

Actual performance in a job (the doing of tasks or the meeting of goals) is determined principally by the effort expended. But it is also greatly influenced by an individual's ability (knowledge and skills) to do the job and by his or her perception of what the required task is (the extent to which the person understands the goals, required activities, and other elements of a task). Performance, in turn, is seen as leading to intrinsic rewards (such as a sense of accomplishment or self-actualization) and extrinsic rewards (such as working conditions and status). These rewards tempered by what the individual sees as equitable lead to satisfaction. But performance also influences sensed equitable rewards. Understandably, what the individual sees as a fair reward for effort will necessarily affect the satisfaction derived. Likewise, the actual value of rewards will be influenced by satisfaction.

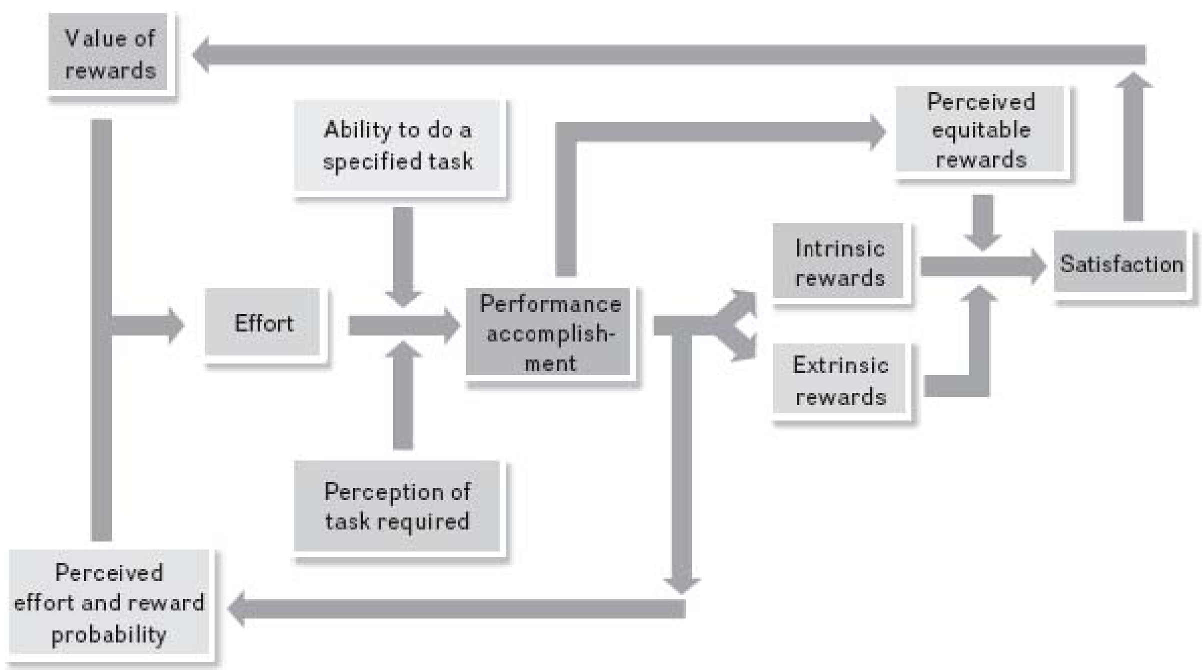

FIGURE 14-3 Porter and Lawler's motivation model

Adapted from L. W. Porter and E. E. Lawler, Managerial Attitudes and Performance (Homewood, IL: Richard D. Irwin, Inc., 1968), p. 165.

Implications for Practice

The Porter and Lawler model of motivation, while more complex than other theories of motivation, is almost certainly a more adequate portrayal of the system of motivation. To the practicing manager, this model means that motivation is not a simple cause and effect matter, and also that managers should carefully assess their reward structures. Through careful planning, managing by objectives and clearly defining duties and responsibilities through a good organization structure, the effort-performance-reward-satisfaction system can be integrated into an entire system of managing.

EQUITY THEORY

An important factor in motivation is whether individuals perceive the reward structure as being fair. One way of addressing this issue is through the use of equity theory, which refers to an individual's subjective judgment about the fairness of the reward he or she gets relative to the inputs (which include many factors, such as effort, experience, and education), compared with the rewards of others. J. Stacy Adams has received a great deal of credit for the formulation of the equity (or inequity) theory.[11] The essential aspect of the theory may be expressed as:

Equity theory Motivation is influenced by an individual's subjective judgment about the fairness of the reward he or she gets relative to the inputs, compared with the rewards of others.

$$\frac{\text{Outcomes by a person}}{\text{Inputs by a person}} = \frac{\text{Outcomes by another person}}{\text{Inputs by another person}}$$

There should be a balance of the outcomes/inputs relationship for one person in comparison with that for another person.

If people feel that they are inequitably rewarded, they may be dissatisfied, they may reduce the quantity or quality of output, or they may even leave the organization. If people perceive the rewards as equitable, they probably will continue at the same level of output. If people think the rewards are greater than what is considered equitable, they may work harder. It is also possible that some may discount the rewards. These three situations are illustrated in Figure 14-4.

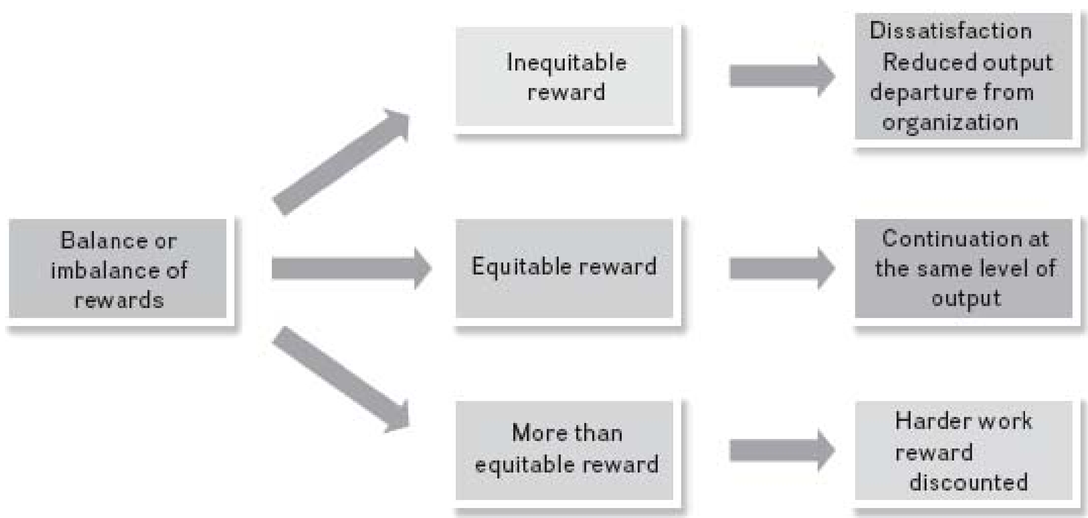

FIGURE 14-4 Equity theory

One of the problems is that people may overestimate their own contributions and the rewards others receive. Certain inequities may be tolerated for some time by employees,[12] but prolonged feelings of inequity may result in strong reactions to an apparently minor occurrence. For example, an employee being reprimanded for being a few minutes late may get angry and decide to quit the job, not so much because of the reprimand but because of long-standing feelings that the rewards for his or her contributions are inequitable in comparison with others' rewards. Likewise, a person may be very satisfied with a weekly salary of $500 until he or she finds out that another person doing similar work gets $10 more.

GOAL SETTING THEORY OF MOTIVATION[13]

In Chapter 4, the systems approach to management by objectives (MBO) was introduced. The model in Figure 4-4 shows a comprehensive view of MBO. Research has shown that to be effective, many key managerial activities have to be integrated into a comprehensive system. Still, an important part of this system pertains to the steps required, of setting objectives, planning actions, implementation, and control and appraisal (Figure 14-5). You will recall that the terms *objectives* and *goals* are often used interchangeably in the management literature.

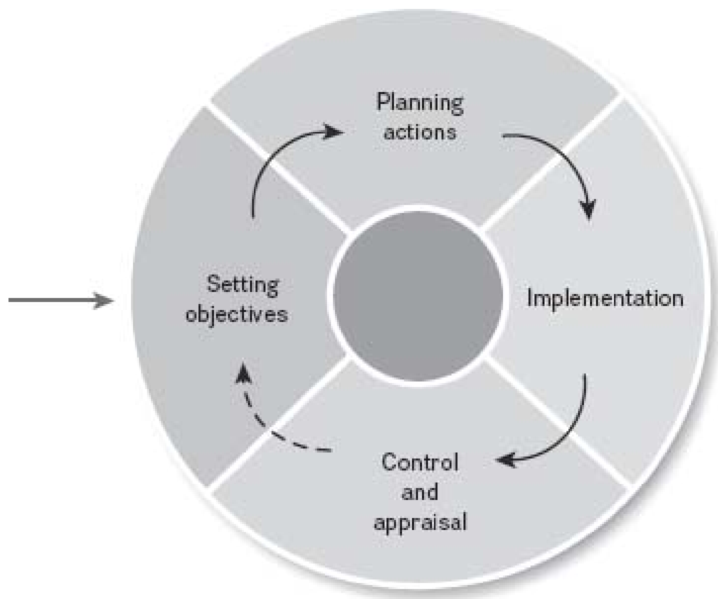

FIGURE 14-5 Objective setting for motivation

The proposition is that for objectives to be meaningful, they must be clear, attainable, and verifiable. Indeed, clear goals, if accepted, are motivating. People want to know what is expected of them. However, several conditions must be met, including that the objectives must be verifiable, which means that at the end of the period one must be able to measure whether the objectives have been achieved and to what extent. Objectives such as "getting the best grades possible in school" are not verifiable, but graduating with a 3.8 grade point average is. The objectives must be challenging, yet they must also be reasonable. Completely unrealistic objectives that cannot be achieved are demotivating rather than motivating, which is an important aim of MBO.

For objectives to be meaningful, they must be clear, attainable, and verifiable

To gain commitment to achieving the goals, true participation in setting them is essential. In the proper environment, individuals should be encouraged to set them. The superior, of course, should review and approve them. Chances are that, in the proper environment, people tend to set goals higher than their superior would set them.

For additional conditions for effective goal setting that improve motivation, see the checklist in Table 4-2.

SKINNER'S REINFORCEMENT THEORY

The psychologist B. F. Skinner of Harvard developed an interesting but controversial technique for motivation. This approach, called **positive reinforcement or behavior modification**[14] holds that individuals can be motivated by proper design of their work environment and by praise for their performance and that punishment for poor performance produces negative results.

Positive reinforcement or behavior modification Individuals can be motivated by proper design of their work environment and by praise for their performance, while punishment for poor performance produces negative results.

Skinner and his followers do far more than praise good performance. They analyze the work situation to determine what causes workers to act the way they do, and then they initiate changes to eliminate troublesome areas and obstructions to performance. Specific goals are then set with workers' participation and assistance, prompt and regular feedback of results is made available, and performance improvements are rewarded with recognition and praise. Even when performance does not equal goals, ways are found to help people and praise them for the good things they do. It has also been found useful and motivating to give people full information on a company's problems, especially those in which they are involved.

This technique sounds almost too simple to work, and many behavioral scientists and managers are skeptical about its effectiveness. However, a number of prominent companies have found the approach beneficial. Emery Air Freight Corporation, for example, observed that this approach saved the company a substantial amount of money by merely inducing employees to take great pains to ensure that containers were properly and fully filled with small packages before shipment.

www.emeryworld.com

Perhaps, the strength of the Skinner approach is that it is so closely akin to the requirements of good managing. It emphasizes removal of obstructions to performance, careful planning and organizing, control through feedback, and the expansion of communication.

McCLELLAND'S NEEDS THEORY OF MOTIVATION

David C. McClelland has contributed to the understanding of motivation by identifying three types of basic motivating needs.[15] He classifies them as the need for power, need for affiliation, and need for achievement. Considerable research has been done on methods of testing people with respect to these three types of needs, and McClelland and his associates have done substantial research, especially on the need for achievement.

McClelland's needs theory The basic motivating needs are the need for power, the need for affiliation, and the need for achievement.

All three drives—power, affiliation, and achievement—are of particular relevance to management, since all must be recognized to make an organized enterprise work well.

Need for Power

McClelland and other researchers have found that people with a high need for power have a great concern with exercising influence and control. Such individuals generally are seeking positions of leadership; they are frequently good conversationalists, though often argumentative; they are forceful, outspoken, hardheaded, and demanding; and they enjoy teaching and public speaking.

Need for Affiliation

People with a high need for affiliation usually derive pleasure from being loved and tend to avoid the pain of being rejected by a social group. As individuals, they are likely to be concerned with maintaining pleasant social relationships, to enjoy a sense of intimacy and understanding, to be ready to console and help others in trouble, and to enjoy friendly interaction with others.

Need for Achievement[16]

People with a high need for achievement have an intense desire for success and an equally intense fear of failure. They want to be challenged and they set moderately difficult (but not impossible) goals for themselves. They take a realistic approach to risk; they are not likely to be gamblers, but rather prefer to analyze and assess problems, assume personal responsibility for getting a job done, and like specific and prompt feedback on how they are doing. They tend to be restless, like to work long hours, do not worry unduly about failure if it does occur, and tend to like to run their own shows.

How McClelland's Approach Applies to Managers

In research studies by McClelland and others, entrepreneurs—people who start and develop a business or some other enterprise—showed very high need for achievement and fairly high need for power drives but were quite low in their need for affiliation. Managers generally showed high on achievement and power and low on affiliation, but not as high or as low as entrepreneurs.

McClelland found the pattern of achievement motivation clearest in people in small companies, with the president normally having very high achievement motivation. In large companies, he found chief executives to be only average in achievement motivation and often stronger in power and affiliation drives. Managers in the upper-middle level of management in such companies rated higher than their presidents in achievement motivation. Perhaps, as McClelland indicated, these scores are understandable. The chief executive has "arrived," while those below are striving to advance.

The question is often raised as to whether all managers should rate high on achievement motivation. People who do rate high tend to advance faster than those who do not. But because so much of managing requires others besides achievement drive, every company should probably have many managers who, while possessing fairly strong achievement motivation, also have a high need for affiliation. This latter need is important for working with people and for coordinating the efforts of individuals working in groups.

Leadership Perspective>

Leadership Characteristics of Inspiring Leaders[17]

In a recent research on communication, seven characteristics of inspiring and motivating leaders were identified. These leaders:

- Showed constant enthusiasm
- Had a clear vision and articulated a compelling action course
- Communicated the benefits of the selected course
- Told memorable stories
- Invited followers to participate
- Inspired with an optimistic outlook
- Encouraged people to use their potential

While these characteristics are important for the leaders, they also must be flexible to adjust behavior suitable for the followers as well as the specific situation.

SPECIAL MOTIVATIONAL TECHNIQUES

After looking at the theories of motivation, one may well ask what they mean to managers. What motivational techniques can managers use? While motivation is so complex and individualized that there can be no single best answer, some of the major motivational techniques can be identified.

Money[18]

Money can never be overlooked as a motivator. Whether in the form of wages, piecework (getting paid for units produced at a certain quality level) or any other incentive pay, bonuses, stock options, company-paid insurance, or any of the other things that may be given to people for performance, money is important. And as some writers have pointed out, money is often more than monetary value; it can also mean status or power or other things.

Money is often more than monetary value; it can also mean status or power or other things.

Economists and most managers have tended to place money high on the scale of motivators, while behavioral scientists tend to place it low. Probably, neither view is right. But, if money is to be the kind of motivator that it can and should be, managers must remember several things.

First, money is likely to be more important to people who are raising a family, for example, than to people who have "arrived," in the sense that their financial needs are not so urgent. Money is an urgent means of achieving a minimum standard of living, although this minimum has a way of getting higher as people become more affluent. An individual who was once satisfied with a small house and a low-priced car may now be able to derive the same satisfaction only from a large and comfortable house and a fairly luxurious automobile. And yet, it is impossible to generalize in these terms. For some people, money will always be of importance, while for others it may never be.

Ethical Perspective[19]

The Other Side of the Coin

The lure of money and power can lead to inappropriate and illegal actions. Ivan F. Boesky was accused of insider trading that resulted in huge personal profits—and a $100 million fine. The scandal, one of the worst on Wall Street since the 1920s, shook public confidence with the fear that stock trading may be rigged.[20]

A more recent investment scandal was committed by Bernard Madoff and others through his wealth management business. Madoff admitted that his investment fund was "basically a giant Ponzi scheme."[21] The size of the loss to investors is difficult to determine, but it is estimated that if all the funds were recovered, the investors' net loss would be below $10 billion dollars.

While money is often used for motivating, it also addresses itself to human greed, which dulls the conscience and may result in unethical and illegal behavior.

Second, it is probably quite true that in most kinds of businesses and other enterprises, money is used as a means of keeping an organization adequately staffed and not primarily as a motivator. Enterprises usually make wages and salaries competitive within their industry and their geographic area to attract and hold people.

Third, money as a motivator tends to be dulled somewhat by the practice of making the salaries of the various managers in a company reasonably similar. In other words, organizations often take great care to ensure that people on comparable levels are given the same or nearly the same compensation. This is understandable, since people usually evaluate their compensation in light of what their equals are receiving.

Fourth, if money is to be an effective motivator, people in various positions, even though at a similar level, must be given salaries and bonuses that reflect their individual performance. Even if a company is committed to the practice of comparable wages and salaries, a well- managed firm need never be bound to the same practice with respect to bonuses. In fact, it appears that unless bonuses for managers are based to a major extent on individual performance, an enterprise is not buying much motivation with them. The way to ensure that money has meaning, as a reward for accomplishment and as a means of giving people pleasure from accomplishment, is to base compensation as much as possible on performance.

It is almost certainly true that money can motivate only when the prospective payment is large relative to a person's income. The trouble with many wage and salary increases and even bonus payments is that they are not large enough to motivate the receiver. They may keep the individual from being dissatisfied and from looking for another job, but they are not likely to be a strong motivator, unless they are large enough to be felt.

Traditionally, pay and promotion in Japan are based on seniority. However, in some Japanese companies, merit pay has been introduced. The reason is that some young Japanese professionals are leaving secure positions for exciting work in Internet companies. In order to keep employees, companies use merit pay based on performance.

Management Perspective

Executive Pay for Performance[22]

During the global financial meltdown in 2008-2009, many executives of companies with very poor performance received big pay packages. This created a public outcry. Compensation committees have to decide on the paychecks of business leaders.

Richard R. Floersch, the executive vice president of McDonalds Corporation and chairman of the Center on Executive Compensation, argues that compensation should be an integral part of the company's strategy. While compensation has been used as a tool for recruitment and retention, other things should be considered. Compensation, for example, communicates the company's values and culture and its relationship with its workforce. Pay should go up with good performance and down with poor company results.

In determining executive pay, questions should be raised, such as: Is both performance and sustainability considered? Short-term results could result in negative long-term performance. It has also been argued that the executives should own considerable amount of stocks to be held over a long period. This may discourage making decisions that could result in short-term performance (and increased pay) at the expense of long-term company sustainability. Many of the Fortune 100 companies have a "clawback or recoup policy" which goes into effect in the company that does not perform as expected. Thus, a pay for performance policy should also take the long-term effect on the company of executives' decisions. Leaders need to lead and share the benefits as well as the pain with the workforce in good as well as in bad times.

Other Rewards Considerations

Implicit in most motivation theories are intrinsic and extrinsic rewards. *Intrinsic rewards* may include a feeling of accomplishment or even self-actualization. *Extrinsic rewards* include benefits, recognition, status symbols, and of course money. Some compensation plans may not provide a strong incentive, such as the hourly, weekly, or even annual salary. On the other hand, *incentive plans* may be based on piecework, sales commission, merit pay, bonus plans, profit or gain (e.g., productivity gain) sharing, and stock options. In Chapter 12 on performance appraisal, we illustrated the incentive plan at the Lincoln Electric Company. Some companies offer “cafeteria” compensation plans tailored to the needs and preferences of the individual employee.

Intrinsic rewards may include a feeling of accomplishment and self-actualization.
Extrinsic rewards include benefits, recognition, status symbols, and money.

The pay may be based on individual, group, and organizational performance. When the pay is based solely on *individual performance*, people may compete against each other, which may make teamwork and cooperation difficult. On the other hand, if *group performance* is the sole criterion for merit pay, some individuals may not contribute their fair share of effort. Considering *organizational performance* as a criterion of bonuses is based on the notion that employees contributed to outstanding performance and therefore should be rewarded. To realize the benefits of individual, group, and organizational reward systems, some companies use a combination of plans.

Pay may be based on individual, group, and organizational performance.

Participation

There is increased awareness and use of a technique that has been given strong support by motivation theory and research, and that is participation. Only rarely are people not motivated by being consulted on action affecting them—by being “in on the act.” In addition, most people at the center of an operation have knowledge of problems and of solutions to them. As a consequence, the right kind of participation yields motivation and knowledge valuable for enterprise success.

Participation is also a means of recognition. It appeals to the need for affiliation and acceptance. Above all, it gives people a sense of accomplishment. But encouraging participation should not mean that managers weaken their position. Although they encourage participation of subordinates on matters with which the latter can help, and although they listen carefully, they must decide for themselves on matters requiring *their* decision.

Quality of Working Life

One of the most interesting approaches to motivation is the QWL program, which is a systems approach to job design and a promising development in the broad area of job enrichment combined with a grounding in the sociotechnical systems approach to management (Chapter 1). QWL is not only a very broad approach to job enrichment, but also an interdisciplinary field of inquiry and action combining industrial and organizational psychology and sociology, industrial engineering, organization theory and development, motivational and leadership theory, and industrial relations. Although QWL rose to prominence only in the 1970s, there are now hundreds of case studies and practical programs and a number of QWL centers, primarily in the United States, Great Britain, and Scandinavia.

www.qwl.com

QWL has received enthusiastic support from a number of sources. Managers have regarded it as a promising means of dealing with stagnating productivity, especially in the United States and Europe. Workers and union representatives have also seen it as a means of improving working conditions and productivity and as a means of justifying higher pay. Government agencies have been attracted to QWL as a means of increasing productivity and reducing inflation and as a way of obtaining industrial democracy and minimizing labor disputes.

Innovation Perspective

QWL in Action

In the development of a QWL program, certain steps are normally undertaken. Usually, a labor-management steering committee is set up, ordinarily with a QWL specialist or staff, which is charged with finding ways of enhancing the dignity, attractiveness, and productivity of jobs through job enrichment and redesign. The participation of workers and their unions (if an operation is unionized) in the effort is thought to be very important, not only because of the exercise of industrial democracy, but also because of the great practical advantage it offers. People on a job are the ones who are best able to identify what would enrich the job for them and make it possible for them to be more productive. This typical QWL technique tends to solve the problem encountered in many job enrichment programs in which workers are not asked what would make the job more interesting for them.

Out of the deliberations of this committee, a number of changes may be suggested in the design of jobs and in the entire working environment. The recommendations may extend to such matters as reorganization of the enterprise, means of improving communication, problems that may never have surfaced before and their solutions, and changes in work arrangements through technical modifications such as the redesign of an assembly line, better quality control, and other things that might improve organizational health and productivity.

It is no wonder that QWL, with such possible important yields, has been spreading fast, especially in larger companies. Nor is it a surprise that leaders in adopting QWL programs should be such well-managed companies as General Motors, Procter & Gamble, American Aluminum (ALCOA), and AT&T.

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www.pg.com
www.alcoa.com
www.att.com

JOB ENRICHMENT

Research on and analysis of motivation point to the importance of making jobs challenging and meaningful. This applies to the jobs of managers as well as to those of nonmanagers. Job enrichment is related to Herzberg's theory of motivation, in which factors such as challenge, achievement, recognition, and responsibility are seen as the real motivators. Even though his theory has not gone unchallenged, it has led to widespread interest in developing ways to enrich job content, particularly for nonmanagerial employees.

Job enrichment should be distinguished from job enlargement (but some authors do not make this distinction). **Job enlargement** attempts to make a job more varied by removing the dullness associated with performing repetitive operations. It means enlarging the scope of the job by adding similar tasks without enhancing responsibility. For example, a production line worker may install not only the bumper on a car, but also the front hood. Critics would say that this is simply adding one dull job to another since it does not increase the worker's responsibility. In **job enrichment**, the attempt is to build into jobs a higher sense of challenge and achievement. Jobs may be enriched by variety, but they also may be enriched by (1) giving workers more freedom in deciding about things such as work methods, sequence, and pace or the acceptance or rejection of materials; (2) encouraging participation of subordinates and interaction between workers; (3) giving workers a feeling of personal responsibility for their tasks; (4) taking steps to make sure that workers can see how their tasks contribute to a finished product and to the welfare of the enterprise; (5) giving people feedback on their job performance, preferably before their supervisors get it; and (6) involving workers in the analysis and change of physical aspects of the work environment such as the layout of the office or plant, temperature, lighting, and cleanliness.

Job enlargement Enlarging the scope of the job by adding similar tasks without enhancing responsibility.
Job enrichment Building into jobs a higher sense of challenge and achievement.

Limitations of Job Enrichment

Even the strongest supporters of job enrichment readily admit that there are limitations in its application. One of these is technology. With specialized machinery and assembly line techniques, it may not be possible to make all jobs meaningful. Another limitation is costs. General Motors tried the six-person and three-person teams in the assembly of motor homes, but found that this approach was too difficult, slow, and costly. On the other hand, two Swedish auto manufacturers, Saab and Volvo, have used the team approach and have found costs to be only slightly higher, but they believe that this increase is more than offset by reduction in absenteeism and turnover.

www.gm.com
www.saab.com
www.volvo.com

There is also some question as to whether workers really want job enrichment, especially of the kind that changes the basic content of their jobs. Various surveys of worker attitudes, even the attitudes of assembly line workers, have shown that a high percentage of workers are not dissatisfied with their jobs and that few want “more interesting” jobs. What these workers seem to want is job security and pay. Moreover, workers are concerned that changing the nature of tasks to increase productivity may mean loss of jobs.

The limitations of job enrichment apply mainly to low-skill jobs. The jobs of highly skilled workers, professionals, and managers already contain varying degrees of challenge and accomplishment. Perhaps, they could still be enriched considerably more than they are. But this can probably be done best by management techniques such as managing by objectives, utilizing more policy guidance with delegation of authority, introducing more status symbols in the form of titles and office facilities, and tying bonus and other rewards more closely to performance.

Making Job Enrichment Effective

Several approaches can be used to make job enrichment appeal to higher- level motivations. First, organizations need a better understanding of what people want. As a number of motivation researchers have pointed out, wants vary with people and situations. Research has shown that workers with few skills want various factors such as job security, pay, benefits, less restrictive rules, and more sympathetic and understanding supervisors. As people move up the ladder in an enterprise, they find that other factors become increasingly important. But little job enrichment research has been done on high-level professionals and managers.

Second, if productivity improvement is the main goal of enrichment, the program must show how workers will benefit. In one company, with fleets of unsupervised two-person service trucks, a program of giving these employees 25 percent of the cost savings from increased productivity, while still making it clear that the company would profit from their efforts, resulted in a startling rise in output and a much greater interest in these jobs.

Third, people like to be involved, to be consulted, and to be given an opportunity to offer suggestions. They like to be considered as people. In one aerospace missile plant, increased morale and productivity as well as reduced turnover and absenteeism resulted from the simple technique of having all employees' names on placards at their workstations and having each program group—from parts production and assembly to inspection—work in an area in which machines and equipment were painted a different color for each group.

Fourth, people like to feel that their managers are truly concerned with their welfare. Workers like to know what they are doing and why. They like feedback on their performance. They like to be appreciated and recognized for their work.

A SYSTEMS AND CONTINGENCY APPROACH TO MOTIVATION

The foregoing analysis of theory, research, and application demonstrates that motivation must be considered from a systems and contingency point of view. Given the complexity of motivating people with individual personalities and in different situations, the risk of failure exists when any single motivator or group of motivators is applied without taking into account these variables. Human behavior is not a simple matter but must be looked upon as a complex system of variables and interactions of which certain motivating factors are an important element.

Motivation must be considered from a systems and contingency point of view.

SUMMARY

Leading is the process of influencing people so that they will contribute to organizational and group goals. People assume different roles, and there is no average person. While working toward goals, a manager must take into account the dignity of the whole person.

Motivation is not a simple concept; rather, it pertains to various drives, desires, needs, wishes, and other forces. Managers motivate by providing an environment that induces organization members to contribute.

There are different views and assumptions about human nature. McGregor called his sets of assumptions about people Theory X and Theory Y. Maslow's theory holds that human needs form a hierarchy ranging from the lowest-order needs (physiological needs) to the highest-order need (the need for self-actualization). Alderfer's ERG theory, which has only three categories (Maslow has five), suggests that a person may be motivated in more than one category at the same time. According to Herzberg's two- factor theory, there are two sets of motivating factors. In one set are the dissatisfiers, which are related to the job context (circumstances, conditions). The absence of these factors results in dissatisfaction. In the other set are the satisfiers or motivators, which are related to the content of the job.

Vroom's expectancy theory of motivation suggests that people are motivated to reach a goal if they think that the goal is worthwhile and they can see that their activities will help them achieve the goal. The Porter and Lawler model has many variables. Essentially, performance is a function of ability, the perception of the task required, and effort. Effort is influenced by the value of rewards and the perceived effort-reward probability. Performance accomplishment, in turn, is related to rewards and satisfaction.

Equity theory refers to an individual's subjective judgment about the fairness of the reward received for inputs in comparison with the rewards of others. Skinner's reinforcement theory suggests that people are motivated by praise for desirable behavior; people should participate in setting their goals and should receive regular feedback with recognition and praise. Goals can motivate if they are attainable, verifiable, and understood and accepted by the people who have to achieve them. McClelland's theory is based on the need for power, the need for affiliation, and the need for achievement.

Special motivational techniques include using money and other rewards considerations, encouraging participation, and improving the QWL. Job enrichment aims at making jobs challenging and meaningful. Although there have been some successes at job enrichment, certain limitations must not be overlooked.

The complexity of motivation requires a contingency approach that takes into account environmental factors.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Leading
- Human factors in managing
- Individual dignity
- Motivation
- McGregor's Theory X and Theory Y

- Maslow’s needs hierarchy
- Alderfer’s ERG theory
- Herzberg’s motivation-hygiene theory
- Vroom’s expectancy theory
- Porter's and Lawler’s motivation model
- Equity theory
- Goal setting theory of motivation
- Positive reinforcement or behavior modification
- McClelland’s needs theory
- Money and other rewards considerations
- Quality of working life
- Job enrichment
- Systems and contingency approach to motivation

FOR DISCUSSION

1. What is motivation? How does effective managing take advantage of and contribute to motivation?
2. What are Theory X and Theory Y assumptions? State your reasons for agreeing or disagreeing with these assumptions. What are some misunderstandings of these theories?
3. Why has the Maslow theory of needs been criticized? To what extent is it valid?
4. Compare and contrast the Maslow and Herzberg theories of motivation. On what grounds has the Herzberg theory been criticized? Why would you suspect that Herzberg’s approach has been very popular with practicing managers?
5. Explain Vroom’s expectancy theory of motivation. How is it different from the Porter and Lawler approach? Which appeals to you as being more accurate? Which is more useful in practice?
6. Explain McClelland’s theory of motivation. How does it fit into a systems approach?

7. "You cannot motivate managers. They are self-propelled. You just get out of their way if you really want performance." Comment.
8. To what extent and how is money an effective motivator?
9. What motivates you in striving toward excellence in your work at school? Are these motivating forces shown in any of the models discussed in this chapter?

EXERCISE/ACTION STEPS

1. The instructor may take a survey in class and ask students to respond to two questions: (1) "Can you describe in detail when you felt exceptionally good about your job?" and (2) "Can you describe in detail when you felt exceptionally bad about your job?" Students should write their answers on a sheet of paper. Then, each individual should be encouraged to share his or her good and bad work experiences with the class. The instructor can classify these responses according to Herzberg's two-factor theory and point out the weakness in this research design.
2. Collect information on an organization that you know and identify the reasons why people contribute to the goals of the enterprise.
3. Identify three leaders from your organization or your LinkedIn contacts and ask them their philosophy on leadership.

INTERNET RESEARCH

1. Surf the Internet for the term "motivation." You will get many "hits." Select one for class discussion.

2. Use a popular search engine and type the first and last name of any authors discussed in this chapter. Did you find information that goes beyond what has been discussed in this chapter? If so, what is it?

Leadership Case

Managing the Hewlett-Packard Way: Will It Continue?[23]

William R. Hewlett and David Packard were two organizational leaders who demonstrated a unique managerial style. They began their operation in a one-car garage in 1939 with $538, and eventually built a very successful company that now produces more than 10,000 products such as computers, peripheral equipment, test and measuring instruments, and handheld calculators. Perhaps, even better known than its products is the distinct managerial style preached and practiced at Hewlett-Packard (HP). It is known as the HP Way.

What is the HP Way? I feel that in general terms it is the policies and actions that flow from the belief that men and women want to do a good job, a creative job, and that if they are provided the proper environment they will do so.

Bill Hewlett, HP cofounder[24]

The values of the founders, who withdrew from active management in 1978, still permeate the organization. The HP Way emphasizes honesty, a strong belief in the value of people, and customer satisfaction. The managerial style also emphasizes an open-door policy, which promotes team effort. Informality in personal relationships is illustrated by the use of first names. MBO is supplemented by what is known as managing by wandering around. By strolling through the organization, top managers keep in touch with what is really going on in the company.

This informal organizational climate does not mean that the organization structure has not changed. Indeed, the organizational changes in the 1980s in response to environmental forces were quite painful. However, these changes resulted in extraordinary company growth in that decade.

In the 21st century, however, the fortune began to change. In the new competitive environment, HP felt it necessary to merge with another computer giant, Compaq. The merger architect, Carly Fiorina, was strongly opposed by Walter Hewlett, the son of William Hewlett. After a close vote, the merger was approved, but not without a challenge by Mr. Hewlett. Still, the merger, which was opposed by the majority of HP's employees, went through. Now, the challenge begins for Ms. Fiorina not only to reestablish the morale of the HP people, but also to merge the HP culture with that of Compaq. Critics predict the HP Way cannot be continued.[25]

Questions

1. Is the HP Way of managing creating a climate in which employees are motivated to contribute to the aims of the organization? What is unique about the HP Way?
2. Would the HP managerial style work in any organization? Why or why not? What are the conditions for such a style to work?
3. Do you think it is possible to maintain the HP Way after the merger with Compaq, the court battle, and the damaged morale at HP? Why or why not?

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CHAPTER 15

Leadership

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Define leadership and its ingredients
2. Describe the trait approaches and charismatic leadership approach and their limitations
3. Discuss various leadership styles based on the use of authority
4. Identify the two dimensions of the managerial grid and the resulting extreme leadership styles
5. Recognize that leadership can be seen as a continuum
6. Explain the contingency approach to leadership
7. Describe the path-goal approach to leadership effectiveness
8. Distinguish between transactional and transformational leaders

Although some people treat the terms *managership* and *leadership* as synonyms, the two should be distinguished. As a matter of fact, there can be leaders of completely unorganized groups, but there can be managers, as conceived here, only where organized structures create roles. Separating leadership from managership has important analytical advantages. It permits leadership to be singled out for study without the encumbrance of qualifications relating to the more general issue of managership.

Leadership is an important aspect of managing. As this chapter will show, the ability to lead effectively is one of the keys to being an effective manager; also, undertaking the other essentials of managing — doing the entire managerial job—has an important bearing on ensuring that a manager will be an effective leader. Managers must exercise all the functions of their role in order to combine human and material resources to achieve objectives. The key to doing this is the existence of a clear role and a degree of discretion or authority to support managers' actions.

Leadership and motivation are closely interconnected. By understanding motivation, one can appreciate better what people want and why they act as they do. Leaders may not only respond to subordinates' motivations, but also arouse or dampen them by means of the organizational climate they develop. Both these factors are as important to leadership as they are to managership.

Leadership and motivation are closely interconnected.

DEFINING LEADERSHIP[1]

Leadership has different meanings to different authors.[2] Harry Truman, former U.S. president, said that leadership is the ability to get men or women to do what they do not like to do and like it. In this book, **leadership** is defined as influence, that is, the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals.[3] Ideally, people should be encouraged to develop not only willingness to work, but also willingness to work with zeal and confidence. Zeal is ardor, earnestness, and intensity in the execution of work; confidence reflects experience and technical ability. Leaders act to help a group attain objectives through the maximum application of its capabilities. They do not stand behind a group to push and prod; they place themselves before the group as they facilitate progress and inspire the group to accomplish organizational goals. A good example is an orchestra leader, whose function is to produce coordinated sound and correct tempo through the integrated effort of the musicians. The performance of the orchestra will depend on the quality of the director's leadership.

Leadership The art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals.

Leadership Perspective

Jim Sinegal, Costcos CEO-A Leader with a Heart or Smart?[4]

Costco's warehouse club is one of the most successful U.S. retailers of its kind led by its CEO Jim Sinegal. While many CEOs insist on fancy offices and other perks, not so Sinegal (who likes to be called "Jim"), who has a simple office with two folding tables. His wardrobe is from his own warehouse rather than from fashion designers and he wears a name tag when visiting his stores. In his interview with the *Wall Street Journal*, he discussed his plan of opening about 30 new stores in the United States in 2007. He also considers opportunities in China and India, but India's laws, at this time, would restrict use of his business model. Costco already operates in Mexico and Japan.

Competing with Walmart that wants to be known for its low prices, Costco pays better salaries than Walmart and most of Costco's rivals. Sinegal said in an interview: "If you hire good people, pay them good wages and provide good jobs and careers, good things will happen in your business. We think that's proven true in our case. We are the low-cost provider of merchandise, and yet we pay the highest wages." It may be smart to lead with the heart.

INGREDIENTS OF LEADERSHIP[5]

Leaders envision the future; they inspire organization members and chart the course of the organization. Former CEOs Lee Iacocca at Chrysler and Jack Welch at General Electric as well as Bill Gates at Microsoft have provided a vision for their companies. Leaders must instill values—whether they are concern for quality, honesty, and calculated risk taking or concern for employees and customers.

Ingredients of leadership Power; a fundamental understanding of people; the ability to inspire followers to apply their full capabilities; the leader's style; and the development of a conducive organizational climate.

Every group of people that performs near its total capacity has some person as its head who is skilled in the art of leadership. This skill seems to be a compound of at least four major ingredients: (1) the ability to use power effectively and in a responsible manner, (2) the ability to comprehend that human beings have different motivating forces at different times and in different situations, (3) the ability to inspire, and (4) the ability to act in a manner that will develop a climate conducive to responding to and arousing motivations.

The first ingredient of leadership is power. The nature of power and the difference between power and authority were discussed in Chapter 9. The second ingredient of leadership is a fundamental understanding of people. As in all other practices, it is one thing to know motivation theory, kinds of motivating forces, and the nature of a system of motivation, but another thing to apply this knowledge to people and situations. A manager or any other leader who at least knows the present state of motivation theory and who understands the elements of motivation is more aware of the nature and strength of human needs and is better able to define and design ways of satisfying them and to administer so as to get the desired responses.

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The third ingredient of leadership is the rare ability to inspire followers to apply their full capabilities to a project. While the use of motivators seems to center on subordinates and their needs, inspiration comes from group heads who may have qualities of charm and appeal that give rise to loyalty, devotion, and a strong desire on the part of the followers to promote what leaders want. This is not a matter of needs satisfaction; it is, rather, a matter of people giving unselfish support to a chosen champion. The best examples of inspirational leadership come from hopeless and frightening situations: an unprepared nation on the eve of battle, a prison camp with exceptional morale, or a defeated leader not deserted by faithful followers. Some may argue that such devotion is not entirely unselfish and that it is in the interests of those who face catastrophe to follow a person they trust. But few would deny the value of personal appeal in either case.

The fourth ingredient of leadership has to do with the style of the leader and the organizational climate he or she develops. As the previous chapter has shown, the strength of motivation depends on expectancies, perceived rewards, the amount of effort believed to be required, the task to be done, and other factors that are part of an environment as well as on organizational climate. Awareness of these factors has led to considerable research on leadership behavior and to the development of various pertinent theories. The views of those who have long approached leadership as a psychological study of interpersonal relationships have tended to converge with the personal viewpoint expressed in this book—that the primary tasks of managers are the design and maintenance of an environment for performance.

John Gabarro and John Kotter added another ingredient: effective managers must develop a healthy relationship with their boss.[6] It means that this relationship is based on mutual dependence. Thus, the manager must understand the boss's goals and pressures and give attention to his or her concerns.

Almost every role in an organized enterprise is made more satisfying for participants and more productive for the enterprise by those who can help others fulfill their desire for things such as money, status, power, and pride of accomplishment. The fundamental **principle of leadership** is this: since people tend to follow those who, in their view, offer them a means of satisfying their personal goals, the more managers understand what motivates their subordinates and how these motivators operate, and the more they reflect this understanding in carrying out their managerial actions, the more effective they are likely to be as leaders.

Principle of leadership Since people tend to follow those who offer them a means of satisfying their personal goals, the more managers understand what motivates their subordinates and the more they reflect this understanding in their actions, the more effective they are likely to be as leaders.

Because of the importance of leadership in all kinds of group action, there is a considerable volume of theory and research concerning it. It is difficult to summarize such a large body of research in a form relevant to day-to-day management. However, examined later are several major types of leadership theory and research, together with outlines of some basic kinds of leadership styles.

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TRAIT APPROACHES TO LEADERSHIP[7]

Prior to 1949, studies of leadership were based largely on an attempt to identify the traits that leaders possess. Starting with the "great man" theory that leaders are born and not made, a belief dating back to the ancient Greeks and Romans, researchers have tried to identify the physical, mental, and personality traits of various leaders. That theory lost much of its acceptability with the rise of the behaviorist school of psychology.

Many studies of traits have been made. Ralph M. Stogdill found that various researchers had identified specific traits related to leadership ability: 5 physical traits (such as energy, appearance, and height), 4 intelligence and ability traits, 16 personality traits (such as adaptability, aggressiveness, enthusiasm, and self-confidence), 6 task-related characteristics (such as achievement drive, persistence, and initiative), and 9 social characteristics (such as cooperativeness, interpersonal skills, and administrative ability).[8]

The discussion of the importance of traits to leadership goes on. More recently, the following key leadership traits have been identified: drive (including achievement, motivation, energy, ambition, initiative, and tenacity), leadership motivation (the aspiration to lead but not to seek power as such), honesty and integrity, self-confidence (including emotional stability), cognitive ability, and an understanding of the business. Less clear is the impact of creativity, flexibility, and charisma on leadership effectiveness.

In general, the study of leaders' traits has not been a very fruitful approach to explaining leadership. Not all leaders possess all the traits, and many non-leaders may possess most or all of them. Also, the trait approach gives no guidance as to *how much* of any trait a person should have. Furthermore, the dozens of studies that have been made do not agree as to which traits are leadership traits or what their relationships are to actual instances of leadership. Most of these so-called traits are really patterns of behavior.

CHARISMATIC LEADERSHIP APPROACH

Charismatic leadership is closely related to the earlier discussion. One of the early studies of charismatic characteristics was done by Robert J. House.[9] He and other authors indicate that charismatic leaders may have certain characteristics such as being self-confident, having strong convictions, articulating a vision, being able to initiate change, communicating high expectations, having a need to influence followers and supporting them, demonstrating enthusiasm and excitement, and being in touch with reality.[10] While these may be admirable characteristics, as we will note later in this chapter, other factors such as the characteristics of the followers and the situation may impact on effective leadership.

Leadership Perspective

Meet Wipro's Azim Premji, India's Leading High-Tech Architect[11]

When Mr. Premji was an engineering student at Stanford University during the 1960s, he received a note from India to return to his home country to take care of the family's peanut oil business. The Western India Vegetable Products Limited became Wipro, the $3 billion leading information technology, business process operations firm and research and development services company. Among the four software companies in India, Wipro focuses on technology systems.

Premji is one of the richest persons in India who built a company based on leadership values. He thinks that ordinary people are able to do extraordinary things. He is very interested in developing teams and leaders and participates in teaching in Wipro's leadership development programs. He is recognized for his efforts in Lean management (discussed in Chapter 20) and was the first Indian company applying the Six Sigma approach (i.e., a quality level of not more than 3.4 defects for a million operations) to quality management. His societal vision is a quality primary education for every child.

The highly respected Indian Institute of Technology in India, among other institutions, conferred on him an honorary doctoral degree. Despite his fame and wealth, he is very modest in the selection of cars he drives, starting with the Ford Escort (made in India) and later the rather inexpensive Toyota Corolla.

Azim Premji, through his leadership, transformed the peanut oil firm to one of the most respected Indian technology services companies.

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LEADERSHIP BEHAVIOR AND STYLES

There are several theories on leadership behavior and styles. This section focuses on (1) leadership based on the use of authority, (2) the managerial grid, and (3) leadership involving a variety of styles, ranging from a maximum to a minimum use of power and influence.

Styles Based on Use of Authority

Some earlier explanations of leadership styles classified the styles on the basis of how leaders use their authority. Leaders are seen as applying three basic styles. The **autocratic leader** commands and expects compliance, is dogmatic and positive, and leads by the ability to withhold or give rewards and punishment. The **democratic or participative leader** consults with subordinates on proposed actions and decisions and encourages participation from them. This type of leader ranges from the person who does not take action without subordinates' concurrence to the one who makes decisions but consults with subordinates before doing so.

The **autocratic leader** commands and expects compliance, is dogmatic and positive, and leads by the ability to withhold or give rewards and punishment.
The **democratic or participative leader** consults with subordinates and encourages their participation

The **free-rein leader** uses very little power, if at all, giving subordinates a high degree of independence in their operations. Such leaders depend largely on subordinates to set their own goals and the means of achieving them, and they see their role as one of aiding the operations of followers by furnishing them with information and acting primarily as a contact with the group's external environment. Figure 15-1 illustrates the flow of influence in the three leadership situations.

The **free-rein leader** uses very little power, if at all, giving subordinates a high degree of independence

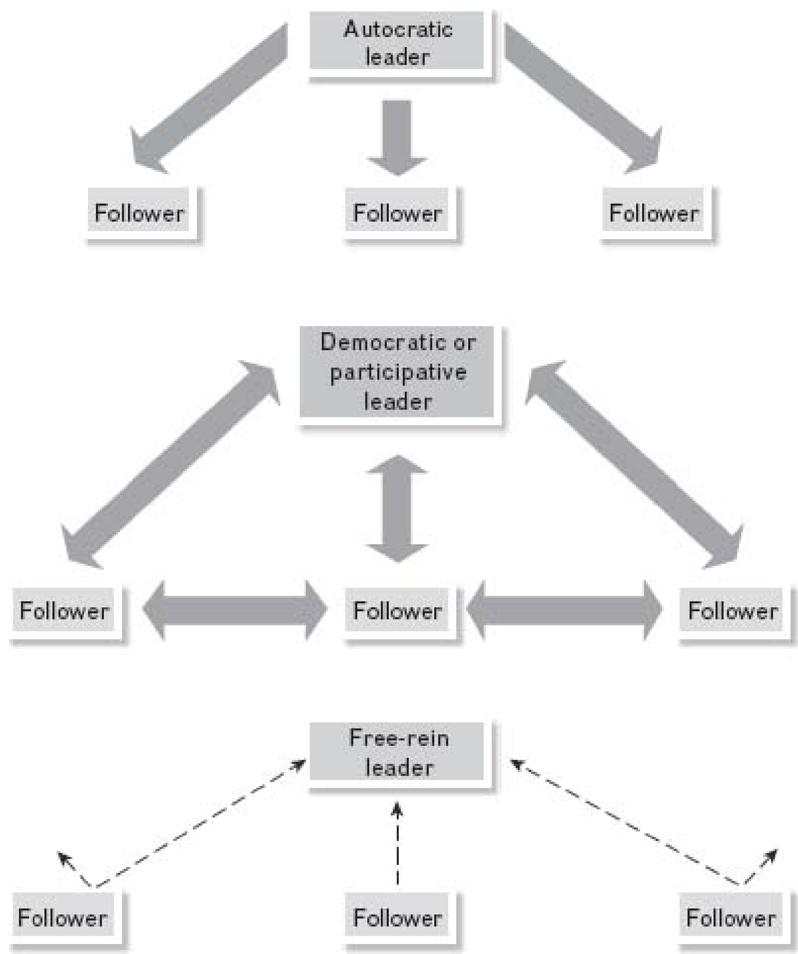

FIGURE 15-1 The flow of influence with three leadership styles

There are variations within this simple classification of leadership styles. Some autocratic leaders are seen as “benevolent autocrats.” Although they listen considerately to their followers’ opinions before making a decision, the decision is their own. They may be willing to hear and consider subordinates’ ideas and concerns, but when a decision is to be made, they may be more autocratic than benevolent.

A variation of the participative leader is the person who is supportive. Leaders in this category may look upon their task as not only consulting with followers and carefully considering their opinions, but also doing all they can to support subordinates in accomplishing their duties.

The use of any style will depend on the situation. A manager may be highly autocratic in an emergency; one can hardly imagine a fire chief holding a long meeting with the crew to consider the best way of fighting a fire. Managers may also be autocratic when they alone have the answers to certain questions.

A leader may gain considerable knowledge and a better commitment from the people involved by consulting with them. As already noted, this is true in developing verifiable objectives under systems of managing by objectives. Furthermore, a manager dealing with a group of research scientists may give them free rein in developing their inquiries and experiments. But the same manager might be quite autocratic in enforcing a rule stipulating that employees wear a protective covering when they are handling potentially dangerous chemicals.

The Managerial Grid

A well-known approach to defining leadership styles is the managerial grid, developed decades ago by Robert Blake and Jane Mouton.[12] Building on previous research that showed the importance of a manager's concern both for production and for people, Blake and Mouton developed a clever device to dramatize this concern. This grid, shown in Figure 15-2, has been used throughout the world as a means of training managers and of identifying various combinations of leadership styles.

The grid dimensions

The grid has two dimensions: concern for people and concern for production. As Blake and Mouton emphasize, their use of the phrase *concern for* is meant to convey *how* managers are concerned about production or *how* they are concerned about people and not *how much* production they are concerned about getting out of a group.

The **managerial grid** has two dimensions: concern for people and concern for production.

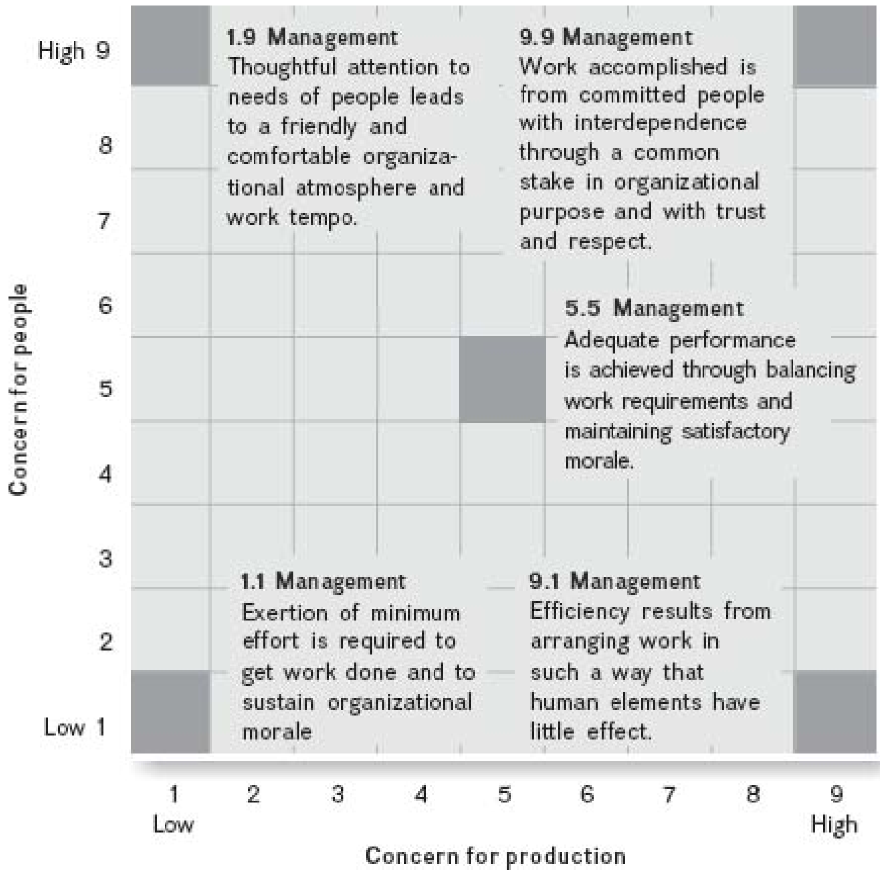

FIGURE 15-2 The managerial grid

Adapted from R. R. Blake and J. S. Mouton, The Managerial Grid (Houston, TX: Gulf Publishing Company, 1964), p. 10.

Concern for production includes the attitude of a supervisor toward a wide variety of things, such as the quality of policy decisions, procedures and processes, creativeness of research, quality of service, work efficiency, and volume of output. Concern for people is likewise interpreted in a broad way. It includes elements such as the degree of personal commitment toward goal achievement, maintenance of the self-esteem of workers, placement of responsibility on the basis of trust rather than obedience, provision of good working conditions, and maintenance of satisfying interpersonal relations.

The four extreme styles

Blake and Mouton recognize four extreme styles. Under the **1.1** style (referred to as impoverished management), managers concern themselves very little with either people or production and have minimum involvement in their jobs; to all intents and purposes, they have abandoned their jobs and only mark time or act as messengers communicating information from superiors to subordinates. At the other extreme are the **9.9** managers, who display in their actions the highest possible dedication both to people and to production. They are the real “team managers,” who are able to mesh the production needs of the enterprise with the needs of individuals.

Another style is **1.9** management (called country club management by some), in which managers have little or no concern for production but are concerned only for people. They promote an environment in which everyone is relaxed, friendly, and happy and no one is concerned about putting forth coordinated effort to accomplish enterprise goals. At another extreme are the **9.1** managers (sometimes referred to as autocratic task managers), who are concerned only with developing an efficient operation, who have little or no concern for people, and who are quite autocratic in their style of leadership.

By using these four extremes as points of reference, every managerial technique, approach, or style can be placed somewhere on the grid. Clearly, **5.5** managers have medium concern for production and for people. They obtain adequate but not outstanding morale and production. They do not set goals too high and are likely to have a rather benevolently autocratic attitude toward people.

The managerial grid is a useful device for identifying and classifying managerial styles, but it does not tell us *why* a manager falls into one part or another of the grid. To determine the reason, one has to look at underlying causes such as the personality characteristics of the leader or the followers, the ability and training of managers, the enterprise environment, and other situational factors that influence how leaders and followers act.

Leadership as a Continuum

The adaptation of leadership styles to different contingencies has been well characterized by Robert Tannenbaum and Warren H. Schmidt, developers of the **leadership continuum concept**. As Figure 15-3 shows, they see leadership as involving a variety of styles, ranging from one that is highly boss centered to one that is highly subordinate centered. The styles vary with the degree of freedom a leader or manager grants to subordinates. Thus, instead of suggesting a choice between the two styles of leadership—authoritarian or democratic—this approach offers a range of styles, with no suggestion that one is always right and another is always wrong.

Leadership continuum concept Leadership involves a variety of styles, ranging from one that is highly boss centered to one that is highly subordinate centered.

The continuum theory recognizes that the appropriate style of leadership depends on the *leader*, the *followers*, and the *situation*.

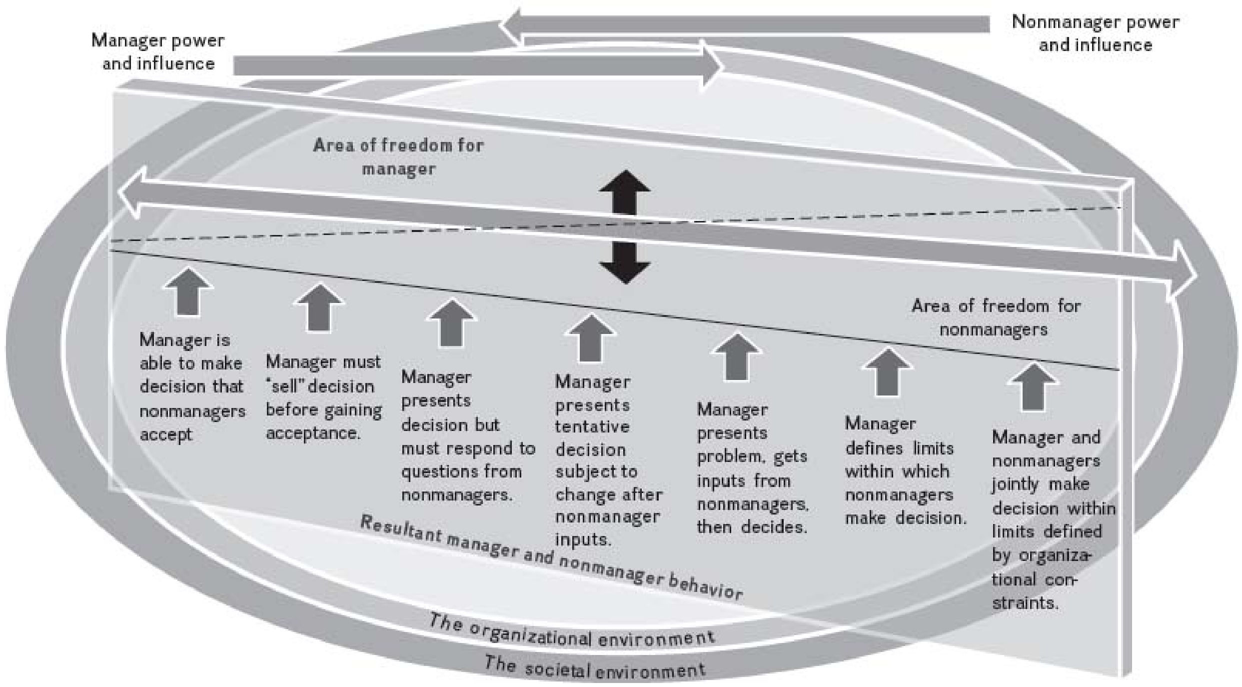

FIGURE 15-3 Continuum of manager-nonmanager behavior

Used with permission from R. Tannenbaum and W. H. Schmidt, "Retrospective Commentary on How to Choose a Leadership Pattern," *Harvard Business Review*, vol. 51, no. 3 (May-June 1973), p. 167.

To Tannenbaum and Schmidt, the most important elements that may influence a manager's style can be seen along a continuum as (1) the forces operating in the manager's personality, including his or her value system, confidence in subordinates, inclination toward leadership styles, and feelings of security in uncertain situations; (2) the forces in subordinates such as their willingness to assume responsibility, their knowledge and experience, and their tolerance for ambiguity that will affect the manager's behavior; and (3) the forces in the situation such as organizational values and traditions, the effectiveness of subordinates working as a unit, the nature of a problem and the feasibility of safely delegating the authority to handle it, and the pressure of time.

The appropriate leadership style depends on the leader, the followers, and the situation.

In reviewing their continuum model in 1973 (it was first formulated in 1958), Tannenbaum and Schmidt placed circles around the model (Figure 15-3) to represent the influences on style imposed by both the organizational environment and the societal environment.[13] This was done to emphasize the open-system nature of leadership styles and the various impacts of the organizational environment and the social environment outside an enterprise. In their 1973 commentary, they put increased stress on the interdependency of leadership style and environmental forces—such as labor unions, greater pressures for social responsibility, the civil rights movement, and the ecology and consumer movements—that challenge the rights of managers to make decisions or handle their subordinates without considering interests outside the organization.

SITUATIONAL OR CONTINGENCY APPROACHES TO LEADERSHIP

As disillusionment with the "great man" and trait approaches to understanding leadership increased, attention turned to the study of situations and the belief that leaders are the product of given situations. A large number of studies have been made on the premise that leadership is strongly affected by the situation from which the leader emerges and in which he or she operates. That this is a persuasive approach is indicated by the emergence of Franklin Delano Roosevelt in the Great Depression of the 1930s in the United States and the rise of Mao Zedong in China after World War II. This approach to leadership recognizes that there exists an interaction between the group and the leader. It supports the follower theory that people tend to follow those whom they perceive (accurately or inaccurately) as offering them a means of accomplishing their personal desires. The leader, then, is the person who recognizes these desires and does things or undertakes programs designed to meet them.

Situational or contingency approach obviously has much meaning for managerial theory and practice. They also tie into the system of motivation discussed in Chapter 14, and they are important for practicing managers, who must consider the situation when they design an environment for performance.

Situational or contingency approach obviously has much meaning for managerial theory and practice. They also tie into the system of motivation discussed in Chapter 14, and they are important for practicing managers, who must consider the situation when they design an environment for performance.

Fiedler's Contingency Approach to Leadership

Although their approach to leadership theory is primarily one of analyzing leadership style, Fred E. Fiedler and his associates at the University of Illinois came up with a **contingency theory of leadership.**[14] The theory holds that people become leaders not only because of the attributes of their personalities, but also because of various situational factors and the interactions between leaders and group members.

Contingency theory of leadership People become leaders not only because of their personality attributes. but also because of various situational factors and the interactions between leaders and group members.

Critical dimensions of the leadership situation

On the basis of his studies, Fiedler describes three critical dimensions of the leadership situation that help determine what style of leadership will be most effective:

1. *Position power.* This is the degree to which the power of a position, as distinguished from other sources of power such as personality or expertise, enables a leader to get group members to comply with directions. In the case of managers, this is the power arising from organizational authority. As Fiedler points out, a leader with clear and considerable position power can obtain good followership more easily than one without such power.

2. *Task structure*. With this dimension, Fiedler has in mind the extent to which tasks can be clearly spelled out and people held responsible for them. If tasks are clear rather than vague and unstructured, the quality of performance can be more easily controlled and group members can be held responsible for performance.
3. *Leader-member relations*. Fiedler regards this dimension as the most important from a leader's point of view, since position power and task structure may be largely under the control of an enterprise. It has to do with the extent to which group members like and trust a leader and are willing to follow that leader.

Leadership styles

To approach his study, Fiedler set forth two major styles of leadership. One of these is primarily task oriented, with the leader gaining satisfaction from seeing tasks performed. The other is oriented primarily toward achieving good interpersonal relations and attaining a position of personal prominence.

To measure leadership styles and determine whether a leader is chiefly task oriented, Fiedler used an unusual testing technique. He based his findings on two types of sources: (1) scores on the *least preferred coworker* (LPC) scale, which are ratings made by people in a group with whom they would least like to work; and (2) scores on the *assumed similarity between opposites* scale, which are ratings based on the degree to which leaders see group members as being like themselves, on the assumption that people will like best and work best with those who are seen as most like themselves. Today, the LPC scale is most commonly used in research. In developing this scale, Fiedler asked respondents to identify the traits of a person with whom they could work least well.[15] Respondents described the person by rating 16 items on a scale of attributes:

Pleasant									Unpleasant
Rejecting									Accepting

On the basis of his studies with this method as well as studies done by others, Fiedler found that people who rated their coworkers high (i.e., in favorable terms) were those who derived major satisfaction from successful interpersonal relationships. People who rated their "least preferred coworker" low (i.e., in unfavorable terms) were seen as deriving their major satisfaction from task performance.

From his research, Fiedler came to some interesting conclusions. Recognizing that personal perceptions may be unclear and even quite inaccurate, he nonetheless found the following to be true:

Leadership performance depends as much on the organization as it depends on the leader's own attributes. Except perhaps for the unusual case, it is simply not meaningful to speak of an effective leader or an ineffective leader; we can only speak of a leader who tends to be effective in one situation and ineffective in another. If we wish to increase organizational and group effectiveness, we must learn not only how to train leaders more effectively but also how to build an organizational environment in which the leader can perform well.[16]

Fiedler's contingency model of leadership is presented as a graph in Figure 15-4. This figure is really a summary of Fiedler's research, in which he found that in "unfavorable" or "favorable" situations, the task-oriented leader would be the most effective. **Favorableness of situation** is defined by Fiedler as the degree to which a given situation enables a leader to exert influence over a group. In other words, when the leader position power is weak, the task structure is unclear, and when the leader-member relations are moderately poor, the situation is unfavorable for the leader; the most effective leader will be one who is task oriented (see the lower right corner of the graph). At the other extreme, where position power is strong, the task structure is clear and leader-member relations are good—a favorable situation for the leader— the task-oriented leader will also be most effective. However, if the situation is only moderately unfavorable or favorable (the middle of the horizontal scale in the figure), the relationship-oriented leader will be most effective.

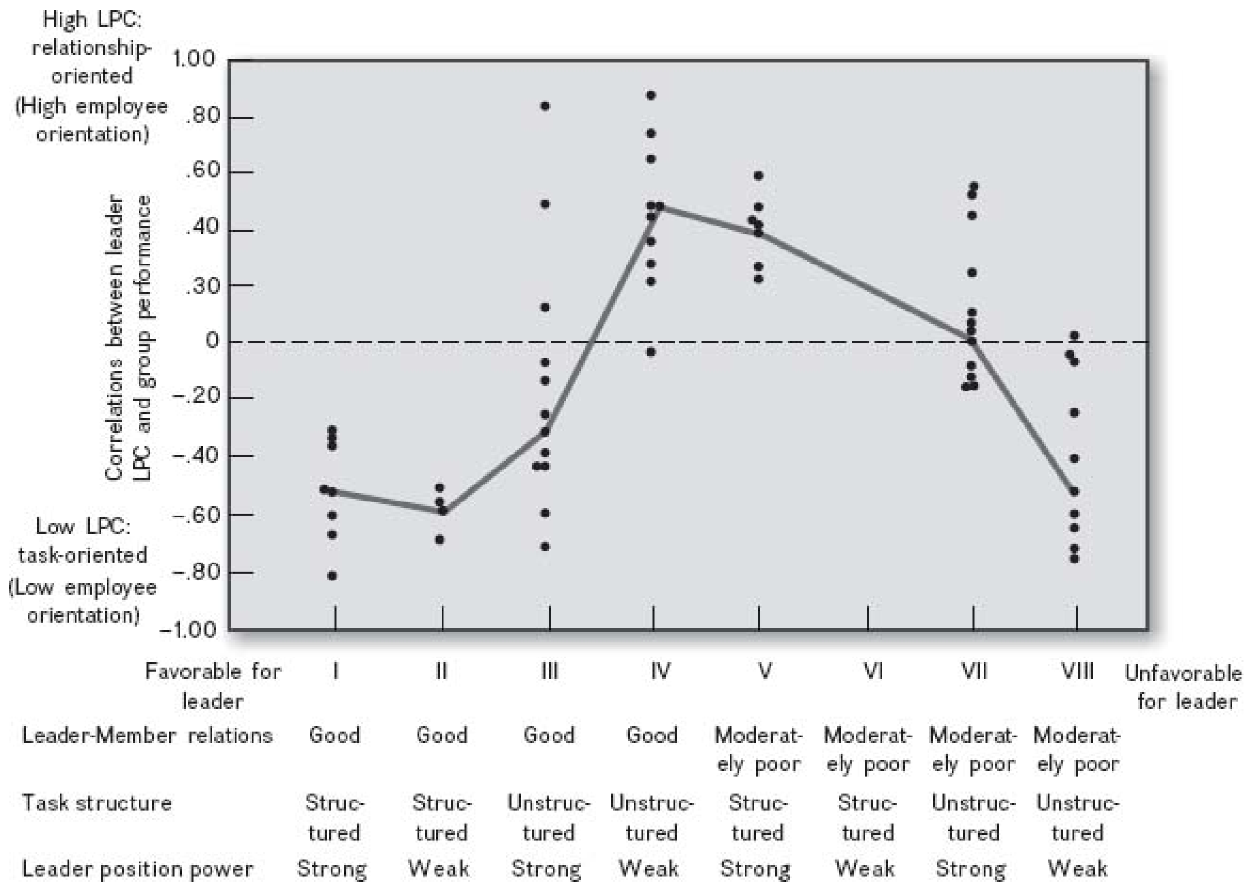

FIGURE 15-4 Fiedler's model of leadership

Each dot in the graph represents findings from a research study.

Adapted from F. E. Fiedler, *A Theory of Leadership Effectiveness* (New York: McGraw-Hill, 1967), p. 146. Used with permission.

In a highly structured situation, such as in the military during a war where the leader has strong position power and good relations with members, there is a favorable situation in which task orientation is most appropriate. In the other extreme, an unfavorable situation with moderately poor relations, an unstructured task, and weak position power also suggests task orientation by the leader, which may reduce the anxiety or ambiguity that could be created by the loosely structured situation. Between the two extremes, the suggested approach emphasizes cooperation and good relations with people.

Fiedler's research and management

In reviewing Fiedler's research, one finds that there is nothing automatic or "good" in either the task- or the people-oriented style. Leadership effectiveness depends on the various elements in the group environment. This might be expected. Cast in the desired role of leaders, managers who apply knowledge to the realities of the group reporting to them will do well to recognize that they are practicing an art. But in doing so, they will necessarily take into account the motivations to which group members will respond and their ability to satisfy the members in the interest of attaining enterprise goals.

Several scholars have put Fiedler's theory to the test in various situations. Some have questioned the meaning of the LPC score and others have suggested that the model does not explain the causal effect of the LPC score on performance. Some of the findings are not statistically significant and situational measures may not be completely independent of the LPC score.

Despite such criticisms, it is important to recognize that effective leadership style depends on the situation. Although this idea may not be new, Fiedler and his colleagues drew attention to this fact and stimulated a great deal of research.

Entrepreneurial Perspective

Interview with Tom Lounibos, CEO of Soasta on Leadership[17]

How is leadership approached by entrepreneurial managers? Does the nature of the firms they lead affect their leadership style?

Tom Lounibos is the CEO of Soasta, a Silicon Valley software firm focused on delivering a revolutionary set of visual software tools that automate web testing. Lounibos has more than 20 years of experience in helping early-stage companies grow into market leaders. Tom's success in leading start-up firms into market-leading enterprises can be linked to his approach of "Leadership by Listening." Before building an organization, Lounibos talks to many potential customers and listens to the market. Not only does he find out what solutions customers want, but also how and when they want new product-based solutions. Listening to customers first allows Lounibos to build a company right at the first time. For example, if customers prefer to research and buy software online, then Lounibos knows to staff his company with more product managers and web service representatives rather than direct sales people.

Lounibos listens to his employees as well. A start-up company allows more flexibility in the participation of all the company's staff, and Tom uses that flexibility to build better solutions for his customers and keep his employees highly vested in the enterprise. Finally, Tom's leadership relies on hiring the right types of people for an entrepreneurial enterprise. He looks for talented people that thrive on little or no structure and are comfortable with change, as that is the environment that technology start-ups face. What about vision? Certainly, a vision of what the company can become is there early on, but Lounibos allows his customers to help refine the vision of the firm before a large organizational structure is built on a wrong premise.

The Path-Goal Approach to Leadership Effectiveness

The **path-goal theory** suggests that the main function of the leader is to clarify and set goals with subordinates, help them find the best path for achieving the goals, and remove obstacles. Proponents of this approach have studied leadership in a variety of situations, and as stated by Robert House, the theory builds on various motivational and leadership theories of others.[18]

Path-goal theory The main function of the leader is to clarify and set goals with subordinates, help them find the best path for achieving the goals, and remove obstacles.

The theory proposes that situational factors contributing to effective leadership should be considered. These factors include (1) the characteristics of subordinates such as their needs, self-confidence, and abilities and (2) the work environment, including such components as the task, the reward system, and the relationship with coworkers (Figure 15-5).

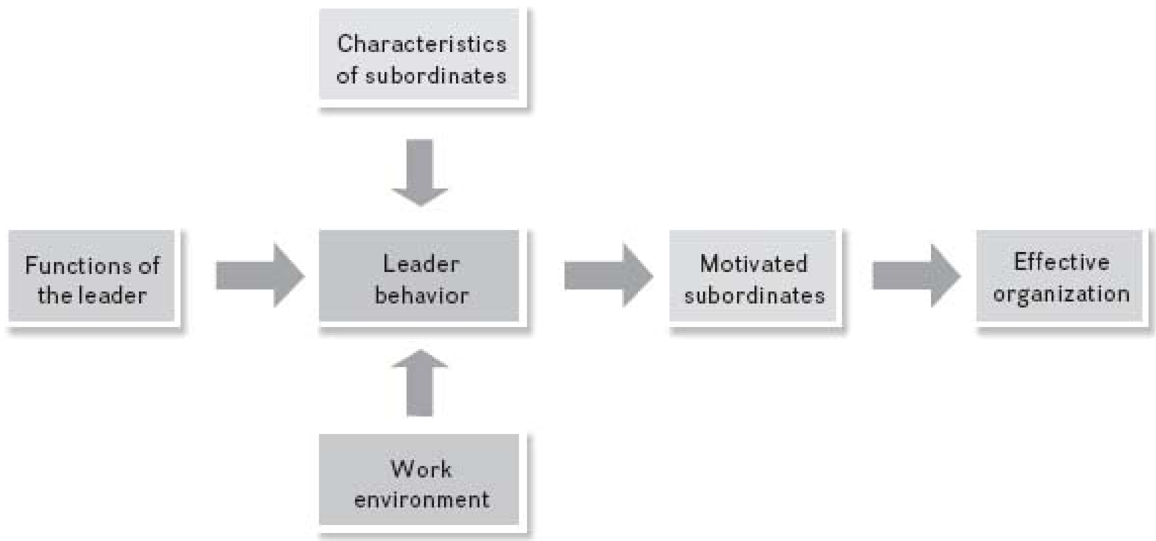

FIGURE 15-5 Path-goal approach to leadership effectiveness

The theory categorizes leader behavior into four groups:

1. *Supportive leadership* behavior gives consideration to the needs of subordinates, shows concern for their well-being, and creates a pleasant organizational climate. It has the greatest impact on subordinates' performance when they are frustrated and dissatisfied.
2. *Participative leadership* allows subordinates to influence the decisions of their superiors, which may increase motivation.
3. *Instrumental leadership* gives subordinates specific guidance and clarifies what is expected of them. It involves aspects of planning, organizing, coordinating, and controlling by the leader.
4. *Achievement-oriented leadership* involves setting challenging goals, seeking improvement of performance, and having

confidence that subordinates will achieve high goals.

Rather than suggesting that there is one best way to lead, this theory suggests that the appropriate style depends on the situation. Ambiguous and uncertain situations can be frustrating for subordinates and a more task-oriented style may be called for. In other words, when subordinates are confused, then the leader may tell them what to do and show them a clear path to goals. On the other hand, for routine tasks such as those found on the assembly line, additional structure (usually provided by a task-oriented leader) may be considered redundant; subordinates may see such efforts as overcontrolling, which may be dissatisfying. To put it differently, employees want the leader to stay out of their way because the path is already clear enough.

The theory proposes that the behavior of the leader is acceptable and satisfies subordinates to the extent that they see it as a source of their satisfaction. Another proposition of the theory is that the behavior of the leader increases the effort of subordinates (i.e., it is motivating) insofar as (1) this behavior makes satisfaction of the needs of subordinates dependent on effective performance and (2) the behavior enhances the subordinates' environment through coaching, directing, supporting, and rewarding.

The key to the theory is that the leader influences the path between behavior and goals. The leader can do this by defining positions and task roles, by removing obstacles to performance, by enlisting the assistance of group members in setting goals, by promoting group cohesiveness and team effort, by increasing opportunities for personal satisfaction in work performance, by reducing stress and external controls, by making expectations clear, and by meeting members' expectations.

The path-goal theory makes a great deal of sense to the practicing manager. At the same time, one must realize that the model needs further testing before the approach can be used as a definite guide for managerial action.

TRANSACTIONAL AND TRANSFORMATIONAL LEADERSHIP

Managing involves carrying out the managerial functions effectively and efficiently. One of these functions relates to leading in general and to leadership in particular. A distinction can be made between transactional and transformational leaders. **Transactional leaders** identify what subordinates need to do to achieve objectives, clarify organizational roles and tasks, set up an organization structure, reward performance, and provide for the social needs of their followers. Such leaders work hard and try to run the organization effectively and efficiently.

Transactional leaders identify what needs to be done to achieve goals, including clarifying roles and tasks, rewarding performance, and providing for the social needs of followers.

Transformational leaders articulate a vision and inspire followers. They also have the capacity to motivate, shape the organization culture, and create a climate favorable for organizational change. Companies such as IBM and AT&T have programs to promote transformational leadership designed to transform their organizations quickly to respond to the rapid changes in the environment. There are many similarities between transformational leaders and charismatic leaders, with the former being noted for initiating innovation and change. When one thinks of charismatic leaders, one thinks of people such as Winston Churchill, Martin Luther King, and Mother Teresa, who inspired people through her selfless service to the poor.

Transformational leaders articulate a vision, inspire and motivate followers, and create a climate favorable for organizational change.

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OTHER LEADERSHIP THEORIES AND APPROACHES[19]

With the great interest in leadership, many approaches developed, as discussed in this book. In addition, there are others such as the *emotional intelligence* approach that focuses on personal competence (self-awareness and self-regulation) and social competence (social awareness and relationship management).

Still another popular situational model was developed by Hersey and Blanchard that discusses delegating, participating, selling, and telling. In addition, Fred Luthans lists some new, emerging theories such as e-leadership, contextual, political, positive, primal, relational, responsible, servant, and shared leadership. Luthans and Avolio then introduce their own approach which they called *authentic leadership.*

SUMMARY

Leadership is the art or process of influencing people so that they contribute willingly and enthusiastically toward group goals. Leadership requires followership. There are various approaches to the study of leadership, ranging from the trait to the contingency approach. One such approach focuses on three styles: autocratic, democratic or participative, and free rein.

The managerial grid identifies two dimensions: concern for production and concern for people. On the basis of these dimensions, four extreme styles and a “middle-of- the-road” style are identified. Leadership can also be viewed as a continuum. At one extreme of the continuum, the manager has a great deal of freedom, while subordinates have very little. At the other extreme, the manager has very little freedom, whereas subordinates have a great deal.

Still another approach to leadership, built on the assumption that leaders are the product of given situations, focuses on the study of situations. Fiedler’s contingency approach takes into account the position power of the leader, the structure of the task, and the relations between the leader and group members. The conclusion is that there is no one best leadership style and that managers can be successful if placed in appropriate situations.

The path-goal approach to leadership suggests that the most effective leaders help subordinates achieve enterprise as well as personal goals. Transactional leaders clarify roles and tasks, set up a structure, and help followers achieve objectives. Transformational leaders articulate a vision, inspire others, and transform the organization. Transformational and charismatic leadership concepts are similar.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Leadership
- Ingredients of leadership
- Principle of leadership
- Leadership traits
- Charismatic leadership
- Leadership styles based on the use of authority
- Managerial grid
- Leadership as a continuum
- Situational approach to leadership
- Fiedler's contingency theory
- Path-goal approach to leadership
- Transactional leader
- Transformational leader
- Emotional intelligence approach to leadership
- Hersey and Blanchard's situational model
- Luthans and Avolio's authentic leadership

FOR DISCUSSION

1. What do you see as the essence of leadership?
2. How are leadership theory and styles related to motivation?

3. Why has the trait approach as a means of explaining leadership been so open to question?
4. Can you see why the managerial grid has been popular as a training device?
5. Select a business or political leader whom you admire and identify his or her style of leading by applying the managerial grid or the continuum of behavior model of Tannenbaum and Schmidt.
6. What is Fiedler's theory of leadership? Applying it to cases of leaders whom you have known, do you perceive it as being accurate?
7. What are the advantages and limitations of the path-goal approach to leadership?
8. If you were selected to be the group leader for a class project (e.g., to make a case study of a particular company), which leadership style or what behavior would you use? Why?

EXERCISE/ACTION STEPS

1. Analyze a situation in which you were the leader. Which leadership approach discussed in this chapter helps explain why you were a leader?
2. Analyze a case in this book using the group approach. Specifically, the class should be divided into groups of about five students. Each group should select a spokesperson, who will present the case analysis to the class. For each group, one observer (this person should not be a participant in the case discussion) should describe the interactions in the group. Was there a leader in the group? If the answer is yes, why was he or she considered a leader? Was it owing to his or her personality, the other group members (followers), or the nature of the task (situation)? Explain the group processes in light of any leadership theory or concepts discussed in this chapter.

INTERNET RESEARCH

1. Use any search engine to find sources for the term "business leadership." Do you find different views on leadership?
2. Jack Welch of General Electric is considered by many an effective leader and manager. Scan the Internet for "Jack Welch" and identify his leadership behavior.

Innovation Case

Profiles of Two Visionaries: Bill Gates and Steve Jobs[20]

Two men who gave their hearts and souls to developing their visions have driven the personal computer (PC) revolution. However, the way in which each of these men went about this quest has been different. Steve Jobs and Bill Gates have changed the way the world does business, but the story of their leadership styles is even more compelling than the success and innovation spawned by Apple and Microsoft.

Bill Gates versus Steve Jobs: The Early Years

Bill Gates started developing his computer skills with childhood friend Paul Allen at Lakeside School in Seattle. At the age of 14, the two had formed their first computer company. After high school, Allen and Gates left Seattle for Boston. Gates went to Harvard and Allen began working for Honeywell. After only two years at Harvard, Gates and Allen left Boston for Albuquerque to develop a computer language for the new Altair 8080 PC. This computer language would become BASIC and the foundation for Microsoft, which was created as a partnership in 1975.

After five years in New Mexico, Microsoft relocated to Bellevue, Washington, in 1980 with BASIC and two other computer languages (COBOL and FORTRAN) in its arsenal. Later that year, IBM began developing its first PC and was in need of an operating system. Microsoft developed the Microsoft disk operating system (MS-DOS) for IBM while two other companies created competing systems. Gates' determination and persuasion of other software firms to develop programs for MS-DOS made it the default IBM platform.

As Microsoft became more successful, Gates realized that he needed help managing the company. His enthusiasm, vision, and hard work were the driving force behind the company's growth, but he recognized the need for professional management. Gates brought in one of his friends from Harvard, Steve Ballmer. Ballmer had worked for Procter & Gamble after graduating from Harvard and was pursuing his MBA at Stanford. Gates persuaded Ballmer to leave school and join Microsoft. Over the years, Ballmer has become an indispensable asset to both Gates and Microsoft. In 1983, Gates continued to show his brilliance by hiring Jon Shriley, who brought order to Microsoft and streamlined the organization structure, while Ballmer served as an advisor and sounding board for Gates. Microsoft continued to grow and prosper in the 1990s, dominating both the operating system market with its Windows and the office suite software market with Microsoft Office.

Gates recognized that his role was to be the visionary of the company and that he needed professional managers to run Microsoft. He combined his unyielding determination and passion with a well-structured management team to make Microsoft the giant it is today.

The other visionary, Steve Jobs, and his friend Steve Wozniak started Apple Computer in Jobs' garage in Los Altos, California, in 1976. In contrast to Bill Gates, Jobs and Wozniak were hardware experts and started with a vision for a personal computer that was affordable and easy to use. When Microsoft offered BASIC to

Apple, Jobs immediately dismissed the idea on the basis that he and Wozniak could create their own version of BASIC in a weekend. This was typical Jobs: decisive and almost maniacal at times. Jobs eventually agreed to license Microsoft's BASIC while pursuing his own vision of developing a more usable and friendly interface for the PC.

Many see Jobs as the anti-Gates. He is a trailblazer and a creator as opposed to Gates, who is more of a consolidator of industry standards. Jobs' goal was to change the world with his computers. He was also very demanding of his employees. Jobs was different from Gates, Allen, and Wozniak. He was not a hard-core computer programmer. He was the person selling the idea of the PC to the public. Jobs made the decision to change the direction of Apple by developing Macintosh (Mac), using a new graphical user interface that introduced the world to the mouse and on-screen icons. Jobs forced people to choose between the Microsoft-IBM operating system and his Mac operating system. In the beginning, Jobs was the visionary who changed the computer world, and Apple dwarfed Microsoft. With all this success, a major problem was brewing at Apple: Steve Jobs was overconfident and did not see Gates and Microsoft as a serious threat to Apple.

Soon after the release of the Macintosh computer, Jobs asked Microsoft to develop software for the Mac operating system. Gates obliged and proceeded to launch a project copying and improving Apple's user interface. The result of that venture was Microsoft Windows.

This cocky attitude and lack of management skills made Jobs a threat to Apple's success. He never bothered to develop budgets and his relationship with his employees was criticized. Wozniak left Apple after the release of the Mac because of differences with Jobs. In 1985, John Scully, CEO of PepsiCo, replaced Steve Jobs as president and CEO of Apple Computer.

Microsoft and Apple at the Turn of the Century: An Industry Giant and a Revitalized Leader

With the success of Windows, the Office application suite, and Internet Explorer, Microsoft has become a household name and Bill Gates has been hailed as a business genius. The fact that Microsoft's competitors, the press, and the U.S. Justice Department have called Microsoft a monopoly reinforces Gates' determination to succeed. Many people question whether Microsoft could survive the Justice Department's decision. Bill Gates, however, has shown that he is the master of adapting to changing market conditions and technologies.

Apple went in the opposite direction in the 1990s. The outdated operating system and falling market share eventually led to a decrease in software development for the Mac. Something needed to be done. In 1998, Steve Jobs returned to Apple as the "interim" CEO. His vision, once again, resulted in the innovative iMac. The design is classic Jobs. In the 1980s, he created the simple to operate Mac to attract people who were using IBM PCs and their clones. Now, he developed a simple, stylish, and Internet-friendly computer to add some much-needed excitement to the computer market. Jobs had also changed as a manager and a leader. He had matured and looked to his professional staff for advice and ideas. Although he is the interim CEO, Jobs sold all but one share of his Apple stock. Larry Ellison, Oracle's CEO and Apple board member, attributes Jobs' ability to lead Apple to this fact: "He owns only one share of Apple stock, yet he clearly owns the product and the idea behind the company. The Mac is an expression of his creativity, and Apple as a whole is an expression of Steve. That's why, despite the 'interim' in his title, he'll stay at Apple for a long time." Many people believe that this will lead to continued success for Apple and a renewed battle between Gates and Jobs.

Gates and Jobs in 2011[22]

While the battle between Apple and Microsoft continues, Steve Jobs passed away in October 2011 and Bill Gates stepped down as CEO in the year 2000 and is now occupied with his philanthropic work at the Bill & Melinda Gates Foundation. Steve

Jobs will be remembered like other pioneers such as Henry Ford and Thomas Edison that had a major impact on our lives.

Questions

1. How did Bill Gates and Steve Jobs differ in their leadership style?
2. Compare and contrast the managerial practices of Gates and Jobs.
3. What do you think about the future of Microsoft and Apple Computer?

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CHAPTER 16

Committees, Teams, and Group Decision-Making

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Explain the nature of various types of committees and groups
2. Outline the reasons why committees and groups are used, with special attention to their use in decision-making
3. Present the disadvantages of committees, especially in decision-making
4. Discuss the requirements for using committees effectively
5. Explain various group concepts
6. Understand the nature of teams, team building, self-managing teams, and virtual teams
7. Recognize conflict in committees, groups, and organizations

One of the most ubiquitous devices of organization is the committee. Whether it is referred to as a board, commission, task force, team, self-managing team, self-managed work group, or autonomous work group, its essential nature is similar. A **committee** is a group of persons to whom, as a group, some matter is committed. It is this characteristic of group action that sets the committee and team apart from other organizational devices, although, as will be seen, not all committees involve group decision-making. As shown later in this chapter, the definition of *team* is similar. Therefore, much of the discussion of committees also pertains to teams, although this term may not be used repeatedly.

Committee A group of persons to whom, as a group, some matter is committed.

THE NATURE OF COMMITTEES AND GROUPS

Because of variation in the authority assigned to committees, much confusion has resulted as to their nature.

Group Processes in Committees

Some say that groups go through four stages: (1) *forming*, when the members of the group get to know each other; (2) *storming*, when the members of the group determine the objective of the meeting and conflict arises; (3) *norming*, when the group agrees on norms and some rules of behavior; and (4) *performing*, when the group gets down to the task. While these characteristics may be found in most groups, they may not necessarily follow these sequential steps.

Four stages of group development: Forming, storming, norming, and performing.

People play certain roles in committees. Some seek information, while others give information. Some try to encourage others to contribute, while others are followers. Finally, some try to coordinate the group's effort or to achieve a compromise when disagreements occur, while others take a more aggressive role.

To be effective in a group, one must not only listen to what is said, but also observe the nonverbal behavior. Furthermore, noting the seating of members may give clues as to the social bonds among the group participants. Those who know each other often sit next to each other. The seating arrangement may have an impact on the group interaction. Often, the chairperson sits at the head of a rectangular table. However, at Daimler-Benz, the maker of Mercedes-Benz cars, the board of directors sits at a round table to de-emphasize the position of the chairperson.

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Functions and Formality of Committees and Groups

Some committees and teams undertake the managerial functions of planning, organizing, staffing, leading, and controlling, while others do not. Some make decisions, while others merely deliberate on problems without authority to decide. Some have authority to make recommendations to a manager, who may or may not accept them, while others are formed to receive information, without making recommendations or decisions.

A committee may have either line or staff functions, depending on its authority. If its authority involves decision-making affecting subordinates it is responsible for, it is a **plural executive**—a *line committee* that also carries out managerial functions such as the board of directors. If its authority relationship to a superior is advisory, then it is a *staff committee.*

Plural executive A line committee that also carries out managerial functions such as the board of directors.

Leadership Perspective

Corporate Governance[1]

Recently, the boards of directors in U.S. companies have come under intense scrutiny by the Securities and Exchange Commission and other groups because of accounting impropriety at organizations such as Tyco (a conglomerate), WorldCom (a telecommunication company), and Enron (an energy trader) that led to two of the largest bankruptcy cases in U.S. history. There is a call for strengthening the board of directors, a plural executive committee. Among the recommendations by various groups are:

- Change the accounting standards and audit regulations.
- Publish ethical and corporate governance guidelines on the company's website.
- Strengthen the role of independent directors.
- Make the board accountable to shareholders and involve shareholders in selecting board members.
- Obtain greater involvement of institutional investors (such as pension fund managers).
- Separate the job of the chairperson from that of the chief executive officer (CEO).
- Get the board more actively involved in selecting the CEO.

Other countries are also reviewing corporate governance. For example, German companies have two boards. The supervisory board provides oversight, while the management board is responsible for managing the firm. Today, there is a drive to publish the pay of top managers, which in the past was considered a private matter. There is also the push to increase the supervisory board's supervision of the activities of the management board. In France and Italy, the governance issue has not yet become a major issue. For example, in the Italian Fiat Company, families hold a large portion of shares. Still, the publicity on corporate scandals may raise awareness of the role of corporate governance.

http://www.tyco.com
http://www.enron.com

Committees may also be formal or informal. If established as part of the organization structure with specifically delegated duties and authority they are *formal.* Most committees with any permanence fall into this class. Committees that are *informal* are organized without specific delegation of authority, usually by some person desiring group thinking or a group decision on a particular problem. For example, a manager may have a problem on which he or she needs advice or agreement from other managers or specialists outside his or her department. The manager may therefore call a special meeting for the purpose of solving the problem.

Committees may be relatively *permanent* or they may be *temporary.* One would expect formal committees to be more permanent than the informal ones, although this is not necessarily so. A formal committee might be established by order of a company president with appropriate provision in the organization structure for the sole purpose of studying the advisability of building a new factory and be disbanded immediately upon the completion of its task. And an informal committee set up by the factory manager to advise on the improvement of product quality or to help coordinate delivery dates with sales commitments might continue indefinitely.

REASONS FOR USING COMMITTEES AND GROUPS

One need not look far for reasons for the widespread use of committees and teams. Although the committee is sometimes regarded as having democratic origins and as being characteristic of democratic society, the reasons for its existence go beyond mere desire for group participation. Committees are widely used even in authoritarian organizations.

Group Deliberation and Judgment

Perhaps, the most important reason for the use of committees is the advantage of gaining group deliberation and judgment—a variation of the adage that “two heads are better than one.” Very few important business problems fall entirely into one single enterprise function such as production, engineering, finance, or sales. Most problems require more knowledge, experience, and judgment than any individual possesses.

It should not be inferred that group judgment can be obtained only through the use of committees. The staff specialist who confers individually with many persons in a given phase of a problem can obtain group judgment without the formation of a committee. Similarly, an executive may ask key subordinates or other specialists for their analyses and recommendations. At times, group judgment can be obtained more efficiently this way, in terms of time, than by using the deliberations of a committee.

Dominant Logic

The dominant logic of the firm may be defined as a mindset or a worldview or a conceptualization of the business[2]. An organization's dominant logic can be thought of as the aggregation or subtlety in negotiated compromise of the individual heuristics or biases of the firm's top decision makers. Individual biases may interact with each other in organizational decisions involving multiple contributors, whose cooperation and commitment are necessary for the organization to act.

CEOs may evolve as unified, internally reinforcing configurations or "gestalts" among elements of strategy, structure, and process. Organizations first coalesce and then become rigid around a leader's gestalt.[3] It is the combined or hierarchically determined impact of the top management team which forms the dominant logic of the firm and from which strategic decisions are based. Their dominant logic is further ingrained, as the leaders of the firm look to past successes and formulate current strategies based on them. Dominant logic may then limit the choices that the committees or groups may consider.

Entrepreneurial teams may also be influenced by the dominant logic of the firm which develops from the founding team. Consider the dominant logic of Apple under Steve Jobs or Amazon under Jeff Bezos or Twitter under Jack Dorsey. How might the vision of the founder influence the dominant logic and performance of the management team or the outcome of committees?

Fear of Too Much Authority in a Single Person

Another reason for the widespread use of committees is the fear of delegating too much authority to a single person. This fear, especially pronounced in government, dictated to the framers of the American Constitution not only the establishment of a two-house legislature and a multimember Supreme Court, but also the division of the powers of government among the Congress, the Supreme Court, and the president. Despite this fear of centralized authority, the founders of the U.S. republic placed the administration of laws in the hands of a single top executive. Yet, as President Nixon discovered, the legislature has the power to remove or force the resignation of the chief executive.

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www.house.gov
www.whitehouse.gov

Representation of Interested Groups

Representation plays a part in the establishment and staffing of committees. Boards of directors are often selected on the basis of groups interested in the company and, perhaps more often, on the basis of groups in which the company has an interest. When executives have a particularly difficult internal problem involving managers and specialists in various departments and activities, they may choose members in such a way as to give these interested parties representation.

Entrepreneurial Perspective

Advisory Boards for New Ventures

Entrepreneurs seeking experienced advice and executive support often form advisory boards for their new ventures. Advisory boards provide the entrepreneur with a group mechanism to assemble corporate counsel at a minimum cost. Advisory boards do not have the formal charge of a board of directors, but do provide the entrepreneur with a supportive group of executives that may assist her/him with strategic advice and links to customers and financing. Advisory boards may work equally well for not-for-profit enterprises as for commercial enterprises. However, the entrepreneur must ensure that she/he uses the talents of the board and articulates a vision that inspires board participation and support.

Coordination of Departments, Plans, and Policies

There is general agreement that committees are very useful for coordinating activities among various organizational units. They are also useful for coordinating plans and policies as well as their implementation. The dynamics of modern enterprises place a heavy burden on the managers to integrate plans and activities. A committee permits individuals not only to obtain first-hand knowledge of the plans and of their own role in the execution of them, but also to make suggestions for the improvement of plans.

Transmission and Sharing of Information

Committees are useful for transmitting and sharing information. All group members affected by a mutual problem or project can learn about it simultaneously, and decisions and instructions can be received uniformly with opportunities for clarification. This may save time. The spoken word may clarify a point better than even carefully written memorandums.

Consolidation of Authority

A manager in a department, branch, or section often has only a portion of the authority necessary to accomplish a program. This is known as *splintered authority.* One way to handle a problem in this situation is to refer it upward in the organizational hierarchy until it reaches a point at which the requisite authority exists. But this place is often in the office of the president, and the problem may not be of sufficient importance to be decided at that level.

For example, a customer of a machine tool manufacturer may wish a slight but unusual change in the design of a piece of equipment. The customer approaches the sales department, which (if there is no established procedure for handling this change) cannot act without the authority of the engineering, production, and cost-estimating departments. In such a case, the sales manager might establish a special purpose team to study the problem, to agree on the nature and cost of the change, and to use the combined authority of its members to approve the request.

The informal use of committees gives flexibility to an organization. However, consolidating splintered authority through a committee should be considered carefully. It should be determined whether the organization structure itself should be changed in order to concentrate in one position the appropriate authority to make recurring decisions.

Motivation through Participation

Committees permit wide participation in decision-making. People who take part in planning a program or making a decision usually feel more enthusiastic about accepting and executing it. Even limited participation can be helpful.

DISADVANTAGES AND MISUSE OF COMMITTEES

Although there are good reasons for using committees, there are also disadvantages of doing so. They are costly. They may result in compromises at the least common denominator rather than in an optimal decision. They may lead to indecision. They also can split responsibility. Finally, they can lead to a situation in which a few persons impose their will on the majority, not allowing participation of other members.

The committee form has often fallen into disrepute through misuse. In general, committees should not be used as a replacement for a manager, for research study, for unimportant decisions, and for decisions beyond the participants' authority.

SUCCESSFUL OPERATION OF COMMITTEES AND GROUPS

Managers spend a great deal of time in committees. The use of committees is due not only to the democratic tradition, but also to a growing emphasis on group management and group participation in organizations. In attempting to overcome some of the disadvantages of committees, managers may find the following guidelines useful.

Authority

A committee's authority should be spelled out so that its members know whether their responsibility is to make decisions, make recommendations, or merely deliberate and give the chairperson some insights into the issue under discussion.

Size

The size of a committee is very important. As shown in Figure 16-1, the complexity of interrelationships greatly increases with the size of the group. If the group is too large, there may not be enough opportunities for adequate communication among its members. On the other hand, if the group consists of only three persons, there is the possibility that two may form a coalition against the third member. No precise conclusions can be drawn here about the appropriate size. As a general rule, a committee should be large enough to promote deliberation and include the breadth of expertise required for the job, but not as large as to waste time or foster indecision. It is obvious that the larger the group, the greater the difficulty in obtaining a "meeting of the minds" and the more time needed to allow everyone to contribute.

The complexity of interrelationships greatly increases with the size of the group.

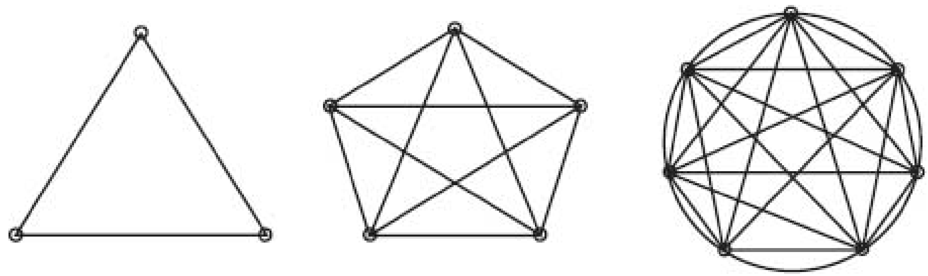

FIGURE 16-1 Increased complexity of relationships through increase in group size

Membership

The members of a committee must be selected carefully. If a committee is to be successful, the members must be representative of the interests they are expected to serve. They must also possess the required authority and be able to perform well in a group. Finally, the members should have the capacity for communicating well and reaching group decisions by integrated group thinking rather than by inappropriate compromise.

Subject Matter

The subject must be carefully selected. Committee work should be limited to the subject matter that can be handled in group discussion. Certain kinds of subjects lend themselves to committee action, while others do not. Jurisdictional disputes and strategy formulation, for example, may be suitable for group deliberation, while an expert in the relevant specialized field may better solve certain isolated, technical problems. Committees will be more effective if an agenda and relevant information are circulated well in advance so that members can study the subject matter before the meeting.

Chairperson

The selection of the chairperson is crucial for an effective committee meeting. Such a person can avoid the wastes and drawbacks of committees by planning the meeting, preparing the agenda, seeing that the results of research are available to members ahead of time, formulating definite proposals for discussion or action, and conducting the meeting effectively. The chairperson sets the tone of the meeting, integrates the ideas, and keeps the discussion from wandering.

Minutes

Effective communication in committees usually requires circulating minutes and checking conclusions. At times, individuals leave a meeting with varying interpretations as to what agreements were reached. This can be avoided by taking careful minutes of the meeting and circulating them in draft form for correction or modification before the committee approves the final copy.

Cost-Effectiveness

A committee must be worth its costs. It may be difficult to count the benefits, especially intangible factors such as morale, enhanced status of committee members, and the committee's value as a training device to enhance teamwork. But the committee can be justified only if the costs are offset by tangible and intangible benefits.

ADDITIONAL GROUP CONCEPTS[4]

Although the committee is of special importance as an organizational device, it is really only one of many types of groups that are found in organizations. In addition to committees, there are teams, conferences, task forces, and negotiation sessions involving group activities.

A **group** may be defined as two or more people acting interdependently in a unified manner toward the achievement of common goals. A group is more than a collection of individuals; rather, through their interactions, new forces and new properties are created that need to be identified and studied in themselves. The goals may pertain to specific tasks, but they may also mean that people share some common concerns or values or an ideology. Thus, group members are attracted to each other by some social bonds.

Group Two or more people acting interdependently in a unified manner toward the achievement of common goals.

Characteristics of Groups

Groups—and the focus is on groups in an organization—have a number of characteristics. First, group members share one or more common goals such as the goals of a product group to develop, manufacture, and market a new product. A second characteristic of groups is that they normally require interaction and communication among members. It is impossible to coordinate the efforts of group members without communication. Third, members within a group assume roles. In a product group, various individuals are responsible for designing, producing, selling, or distributing a product. Naturally, the roles are in some kind of relationship to each other in order to achieve the group task. Fourth, groups usually are a part of a larger group. The product group may belong to a product division that produces many products of a similar nature. Large groups may also consist of subgroups. Thus, within the product group may be a subgroup specializing exclusively in the selling of the product. Also, groups interface with other groups. Thus, product group A may cooperate with product group B in the distribution of their products. Then, it is evident that the systems point of view, which focuses on the interrelatedness of parts, is essential in understanding the functioning of groups.

There are a number of other sociological characteristics of groups that must be recognized. Groups develop **norms**, which refer to the expected behavior of the group members. If individuals deviate from the norms, pressure is exerted to make them comply. This can be functional when, for example, a person who frequently shows up late for work is admonished by other group members. But there are also situations in which groups may be dysfunctional. For example, ambitious, highly motivated employees may be pressed to produce in congruence with generally accepted norms rather than according to their abilities.

Norms The expected behavior of group members.

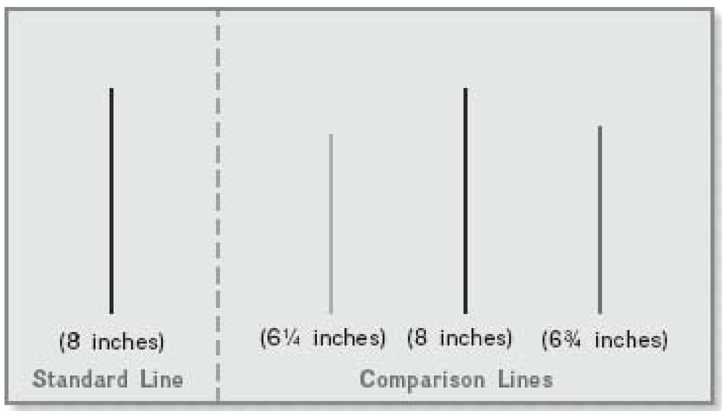

FIGURE 16-2 Which comparison line is the same length as the standard line?

A Special Kind of Group: The Focus Group

Focus groups have been used for some time in market research. For example, actual or potential customers are asked in a group setting to comment on a product or service before large-scale research is undertaken. The comments may be taped or notes may be taken. The responses are then analyzed to determine the customers' attitudes, perceptions, or satisfaction with regard to the product or service.

Elements of focus groups have also been used in Europe. Germany's public participated in value forums to determine long-term energy policies. The experience indicated that the public can contribute to value forums, the participants were satisfied with this kind of procedure, and they were eager to help resolve inconsistencies.

Focus groups may also be used for evaluating managerial aspects within an organization. The Public Service Company of New Mexico established six focus groups to elicit responses about its performance appraisal, compensation, and benefits systems. On the basis of the findings, the company implemented a more flexible benefits program, a job redesign program, and a new decision-making process. Rather than imposing organizational changes, the company allowed the employees to become actively involved in the change process.

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Functions and Advantages of Groups[5]

Groups have many functions. They are powerful in changing behavior, attitudes, and values and in disciplining members. As noted, deviant members may be pressured to adhere to group norms. In addition, groups are used for decision-making, negotiating, and bargaining. Thus, group members with diverse backgrounds may bring different perspectives to the decision-making process. However, this does not mean that group decisions are always better than individual decisions.

Group concepts are very important for the topics covered in other chapters in this book. Specifically, different group structures influence *communication* patterns. Thus, communication will differ when it is channeled through one key member or when it flows freely among all the group members. One can hardly consider the number of people in a team when each member communicates only with the boss; teamwork requires open communication among all members. Effective group interaction may also affect *motivation.* For example, group members participating in setting objectives may become committed to the achievement of group goals. Finally, *leadership* must be seen in the context of group processes. A grasp of group concepts helps in understanding the interactions between leaders and followers as well as among all the group members. In short, an understanding of groups is important for carrying out all managerial functions, particularly the function of leading. Groups are a fact of organized and unorganized life. It is important to know how they work and to use them in an effective and efficient manner in situations that favor group actions.

Groups also have advantages for individuals. Groups do provide social satisfaction for their members, a feeling of belonging, and support for the needs of individuals. Another benefit of groups is that they promote communication. It may be the give-and-take in a formal meeting or it can take the form of the grapevine, which is informal communication through which group members become aware of "what is really going on in the organization." Groups also provide security. Labor unions are sometimes formed precisely for this reason—to give job security to their members. Finally, groups provide opportunities for promoting self-esteem through recognition from and acceptance by peers.

Innovative Perspective

Interview with Mr. Sal Giambanco, Vice President for Human Resources with the Omidyar Network.[6]

Sal Giambanco leads the human capital and operations functions of the Omidyar Network. The Omidyar Network, established by eBay founder Pierre Omidyar and his wife, is a philanthropic investment firm that invests in organizations that facilitate social change. In this role, Mr. Giambanco works to develop and scale the talent at Omidyar Network and its portfolio organizations. Prior to his role at Omidyar Network, he served as the vice president of HR for PayPal and eBay, Inc. Earlier, he was the National Recruiting Manager for a number of KPMG's consulting practices. Given his rich experience in HR and innovation, we asked Mr.

Giambanco to comment on how to enhance innovation through HR strategy.

Sal explained: "Too much planning can stifle innovation. In fact, an organization cannot actually build a structured plan to innovate - that concept is oxymoronic. While it's important to have strict planning in some parts of the organization (e.g., support teams), in groups where you expect innovation to be driven, you have to operate more loosely. You want to hire the smartest, brightest, more aggressive people and fit them into roles that give them the latitude to spread their wings; this is how you give them the freedom to innovate. Over-designing a position, e.g., having a very specific job description from which to recruit and to which an employee must adhere, limits that freedom to innovate. For example, we recommend creating a brand new job - rather than back-filling a preset position - in order to foster innovation in the organization."

TEAMS[7]

A team consists of a number of people who are empowered to achieve team goals. As mentioned at the beginning of the chapter, committees, groups, and teams have similar characteristics. A **team** can be defined as "a small number of people with complementary skills who are committed to a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable."[8] As with committees, there are different types of teams. Some make recommendations, others have the power to make decisions, and still others actually run operations. Some teams are created to solve problems such as quality circles and others engage in activities that cross functional areas such as design, marketing, finance, manufacturing, personnel, and so on. Such cross-functional teams may be used for developing a new product or to improve the quality of a product or service. For example, in the design and development of the Boeing 777 airliner, some 200 cross-functional teams were involved. It is clear that what has been said about committees also applies to teams.

Team A small number of people with complementary skills who are committed to a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable.
www.boeing.com

Team Building[9]

There are no definite rules for building effective teams. The following approaches, however, were found to be useful. Team members must be convinced that the team's purpose is worthwhile, meaningful, and urgent. Team members should also be selected according to the skills needed to achieve the purpose. Teams should have the right mix of skills such as functional or technical skills, problem-solving and decision-making skills, and of course human relations skills. The team needs to be guided by rules for group behavior such as regular attendance, confidentiality, discussions based on facts, and everyone contributing. Goals and required tasks should be identified early in team formation. Members should encourage each other through recognition, positive feedback, and rewards.

Self-managing Teams[10]

Recently, organizations have used **self-managing teams**, which usually consist of members who have a variety of skills needed to carry out a relatively complete task. Thus, such a team may have the power to determine what needs to be done, how it will be done, when it needs to be completed, and who is going to do it. Team members may also be evaluated and rewarded as a group. Especially when the team has a great deal of power, it may be called a *high-performance team* or even a *super team.*

Self-managing team A group with members who have a variety of skills needed to carry out a relatively complete task.

Virtual Teams

In the rapidly changing environment, a company has to respond fast to take advantage of opportunities. This, in turn, may require **virtual management**, which has been described as "the ability to run a team whose members aren't in the same location, don't report to you, and may not even work for your organization."[11] Not being in the same location and not even reporting to the same superior make managing those teams even more difficult. Therefore, it is important to have a clear purpose, to define clearly the tasks and assumptions, and to communicate effectively by such means as e-mail, fax, telephone, and perhaps even a project website. It is also essential to carefully watch for possible conflict so that it can be resolved quickly.

Virtual management Running a team whose members are not in the same location, do not report to the person managing it, and may not even work for the same organization.

Leadership Perspective

Interview with Mr. Reginald Chatman, Senior Manager of Corporate Quality Solutions, Cisco Systems, on Managing Work Teams[12]

While managing work teams in globally connected enterprises requires managerial and technical expertise, we expect that maximizing the joint contribution of a sophisticated and culturally diverse work group also requires a certain social adroitness. To ascertain how the global manager maximizes the potential of an international work team, we spoke to Mr. Reginald Chatman of Cisco Systems. Mr. Chatman is a senior manager of Corporate Quality Solutions with Cisco and has extensive experience in managing work teams that are geographically diverse.

We asked Chatman to share his thoughts on successfully managing work groups in the Cisco context. He stated: "To successfully manage work groups and teams in today's fast-paced business environment, one must exhibit leadership skills to overcome three challenges: influencing without authority, communicating through new platforms, and working with remote team members around the globe." He continued, "Team leadership now involves motivating members to execute to a vision without the ability to formally direct. That requires development of the kind of soft skills that are not commonly taught. Chief among them is the need to develop a rapport with team members and engender mutual trust and respect. Communicating in the age of wikis, instant messaging, social networks, blogs, and Twitter means adapting the message to ensure information is readily available, clear and consistent, and appropriate for local cultures. Finally, to lead in a world where team members are working and contributing in every time zone means being sensitive to the different work schedules, smart about assessing talent and assigning work to ensure team members can be successful, and helping remote workers feel connected to the rest of the team."

While advances in communication and information technology have made global collaboration possible, these technologies are still wielded by human beings who require respect, inspiration, and consideration. It will be those business leaders, who can provide these essential elements to those they manage, who will achieve the potential that today's global workforce can provide.

CONFLICT IN COMMITTEES, GROUPS, AND TEAMS[13]

Despite the many advantages of committees, groups, and teams, conflict will arise. In the discussion of committees, we pointed out the disadvantages of committees; they also apply to groups and teams. In addition, there is a great deal of literature dealing with work group and team conflict.[14] Conflict may arise between individuals (interpersonal conflict), between groups (intergroup conflict), and between the organization and its environment, such as with other organizations. There can also be resentment toward “free riders,” individuals who do not contribute their fair share yet share in group rewards.

Conflict may arise between individuals, between groups, and between the organization and its environment.

SUMMARY

A committee is a group of persons to whom, as a group, some matter is committed. Committees may be line or staff, formal or informal, permanent or temporary. Committees are used for obtaining group deliberation and judgment, for preventing one person from accumulating too much authority, and for presenting the views of different groups. Committees are also used for coordinating departments, plans, and policies as well as for sharing information. At times, a manager may not have all the authority needed for making a decision; authority is therefore consolidated through committees. Moreover, committees often increase motivation by letting people participate in the decision-making process.

Committees also have disadvantages: they can be costly, their actions may result in compromises at the least common denominator, their discussions may lead to indecisions, and they have the tendency to be self-destructive when one person dominates the meetings. Another drawback is that responsibility is split, with no one person feeling responsible for a decision. Moreover, a small group of committee members may insist on the acceptance of their unwarranted view against the will of the majority.

Effective operation of a committee requires determining its authority, choosing an appropriate size, selecting members carefully, using it only for the proper subject matter, appointing an effective chairperson, taking and circulating minutes, and using it only when its benefits exceed its costs.

The experiment by Asch shows the impact of group pressure toward conformity. The focus group is a special kind of group that elicits responses from customers, the public, or employees. Before an organization uses group actions, it must consider the advantages and disadvantages of groups. A committee is one kind of group; another kind is a team. In the self-managing team, members have a variety of skills needed to carry out relatively complete tasks. In virtual management, team members are not in the same place, do not report to the same superior, and may not work for the same organization. With the wide use of committees, groups, and teams, interpersonal and intergroup conflict may arise. In addition, conflict between organizations as well as between organizations and their environments need to be dealt with.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Committee
- Four stages in group processes
- Plural executive and board of directors
- Line and staff committees
- Formal and informal committees
- Permanent and temporary committees
- Reasons for using committees
- Disadvantages and misuse of committees
- Recommendations for making committees successful
- Characteristics of groups
- Norms
- Asch’s experiment on group pressure
- Focus group
- Functions and advantages of groups
- Team and team building
- Self-managing team

- Virtual team
- Conflict in committees, groups, and teams

FOR DISCUSSION

1 A prominent novelist and critic of the management scene has said: “I don’t think we can go on very much longer with the luxurious practice of hiring ten men to make one man’s decision. With all its advantages, professional management tends to encourage bureaucratic corpulence.” Comment.
2 Distinguish between a committee, a team, and a group.
3 What are the reasons for using committees? If there are good reasons, why are committees criticized so much?
4 What is the relative effectiveness of individual and committee action in functional activities? Identify the activities that can be undertaken most effectively by a committee.
5 Describe and discuss the nature of misapplications of committees.
6 What would you recommend for making committees effective?
7 Go to the Internet and find out what has been written about team management.
8 What are the major characteristics of groups in organizations?

EXERCISES/ACTION STEPS

1 Discuss the case in this chapter in groups. Divide the class into groups of various sizes (e.g., groups of 3, 6, 9, and 12 students). Each group is to analyze the case and make recommendations. A spokesperson should be selected in

each group to present the group's view on the case. On what basis was the spokesperson selected? What are the similarities and differences between a spokesperson and a chairperson? Discuss the advantages and problems encountered in the groups of various sizes. What do you think is the ideal group size?

2 Interview two managers and ask about their experiences in committees. Do they have a positive or a negative view of committees? What have they found to be most important for making committees effective and efficient? What do they think is the ideal size of a committee?

3 Review the decision-making process at your organization or the organization that you may wish to join. Identify three ways in which it may be improved.

INTERNET RESEARCH

1 Search the Internet for the term "virtual team" and see how companies develop and apply tools for virtual teams in real situations.

2 Search the Internet using the key words "Asch effect" or "Asch experiment." Find out the details of the experiment.

Leadership Case

Could the Challenger Accident Have Been Avoided?[15]

The Challenger space shuttle accident on January 28, 1986, gripped America more than any other event in the last 12 years or so. It was a tragic accident in which seven people died. There is now evidence that the astronauts may have survived the initial explosion and may have died on impact when the space shuttle hit the water. The purpose of recounting the Challenger accident is to briefly explain what happened, possible reasons for why it happened, how it may have been prevented, and what one can learn from it.

The Challenger mission consisted of two complex systems: the technical system and the managerial system. The technical problem was the troublesome O-rings, which under pressure and low temperatures became ineffective and did not provide the required seal. Engineers and managers were aware of the problem. So why was the go- ahead given for launching the spacecraft? Can it be explained by the way the managerial system worked?

Engineers at Morton Thiokol, the contractor for the rocket booster, argued against the launch, citing previous problems at low temperatures. Management, on the other hand, may have felt pressure from NASA to go ahead with the launch. Roger Boisjoly, one of the engineers who argued strongly against the launch, stated that he received looks from the management that seemed to say “Go away and don’t bother us with the facts.” He said that he felt helpless. Another engineer was told to take off his engineering hat and put on his management hat.

Eventually, the go-ahead was given by managers. Engineers were excluded from the final decision. What, then, were some possible reasons for the disaster? Some argued that there was a lack of communication between engineers and managers. They had different goals: safety versus on-time launch. Others suggested that people with responsibilities did not want to hear the bad news. Thus, no listening! Still others suggested that there was insufficient provision for upward communication outside the chain of command. There was also a suggestion that status differences between engineers and managers and between upper- and lower-level managers may have played a role in inhibiting upward communication. Perhaps, there was also false confidence in the mission because of past luck. Managers and engineers knew of the problem, but nobody was killed before.

Moreover, no one in the organizational unit wanted to be the "bad guy" to halt the launch. Morton Thiokol may also have been concerned about a pending contract.

The result of the series of events was the death of seven Americans: Jarvis, McAuliffe, McNair, Onizuka, Resnik, Scobee, and Smith. The question on our mind is: Could this accident have been prevented?

Questions

1 What can you learn from this disaster that may be relevant to your organization or an organization you know?

2 What do you think was the cause or causes of the Challenger disaster?

3 What do you do if a group decides in a way that is contrary to your judgment? See Roger Boisjoly in the case.

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* Decision-making is also discussed in Chapter 6.

CHAPTER

17

Communication

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Describe the purpose of communication and the basic communication process
2. Explain the flow of communication in an organization
3. Describe the characteristics of written, oral, and nonverbal communication
4. Identify barriers and breakdowns in communication and suggest approaches to improve it
5. Understand the role of the electronic media in communication

Although communication applies to all phases of managing, it is particularly important in the function of leading. **Communication** is the transfer of information from a sender to a receiver, with the information being understood by the receiver. This definition forms the basis for the communication process model discussed in this chapter. The model focuses on the sender, the transmission, and the receiver of the message. It also draws attention to "noise," which interferes with good communication, and feedback, which facilitates communication. This chapter also examines the impact of the electronic media on communication.

Communication The transfer of information from a sender to a receiver, with the information being understood by the receiver.

THE PURPOSE OF COMMUNICATION

In its broadest sense, the purpose of communication in an enterprise is to effect change—to influence action toward the welfare of the enterprise. Communication is essential for the *internal* functioning of enterprises because it integrates the managerial functions. Especially, communication is needed (1) to establish and disseminate the goals of an enterprise; (2) to develop plans for their achievement; (3) to organize human and other resources in the most effective and efficient way; (4) to select, develop, and appraise members of the organization; (5) to lead, direct, motivate, and create a climate in which people want to contribute; and (6) to control performance.

Figure 17-1 graphically shows not only that communication facilitates the managerial functions, but also that communication relates an enterprise to its *external* environment. It is through information exchange that managers become aware of the needs of customers, the availability of suppliers, the claims of stockholders, the regulations of governments, and the concerns of the community. It is through communication that any organization becomes an open system interacting with its environment, a fact whose importance is emphasized throughout this book.

FIGURE 17-1 The purpose and function of communication

THE COMMUNICATION PROCESS

Simply stated, the communication process (Figure 17-2) involves the sender, the transmission of a message through a selected channel, and the receiver. Let us examine closely the specific steps in the process.

Sender of the Message

Communication begins with the sender, who has a *thought* or an idea, which is then encoded in a way that can be understood by both the sender and the receiver. While it is usual to think of *encoding* a message into a spoken language, there are many other ways of encoding such as translating the thought into computer language.

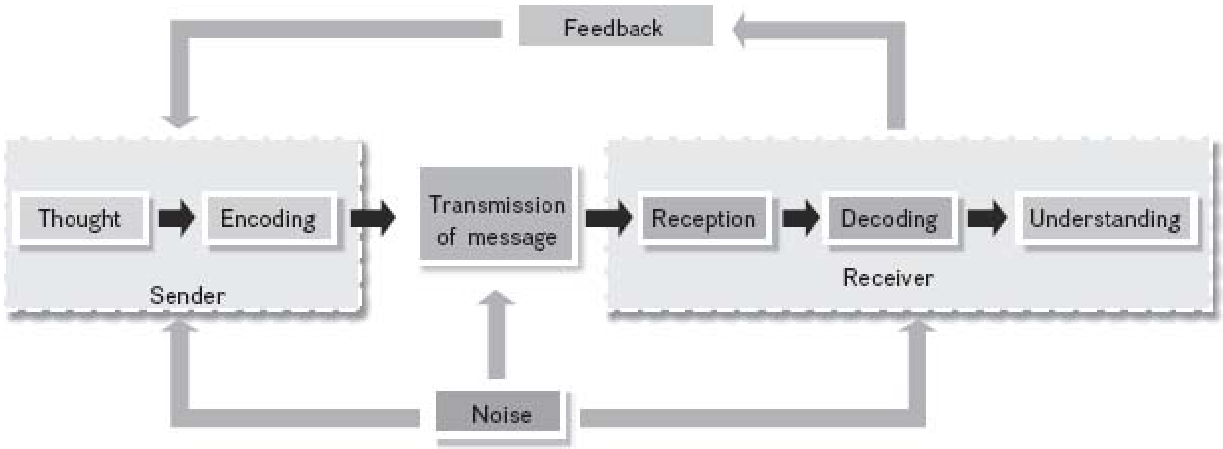

FIGURE 17-2 A communication process model

Use of a Channel to Transmit the Message

The information is then transmitted over a channel that links the sender with the receiver. The message may be oral or written, and its *transmission* may be through a memorandum, a computer, the telephone, a telegram, e-mail, television, or other media. Television, of course, also facilitates the transmission of gestures and other visual clues. At times, two or more channels are used. In a telephone conversation, for instance, two people may reach a basic agreement that they later confirm by a letter. Since many choices are available, each with advantages and disadvantages, the proper selection of the channel is vital for effective communication.

Receiver of the Message

The receiver has to be ready for the *reception* of the message so that it can be decoded into thoughts. A person thinking about an exciting football game, for example, may pay insufficient attention to what is being said about an inventory report, thus increasing the probability of a communication breakdown. The next step in the process is *decoding*, in which the receiver converts the message into thoughts. Accurate communication can occur only when both the sender and the receiver attach the same or at least similar meanings to the symbols that compose the message. Thus, it is obvious that a message encoded into French requires a receiver who understands French. Less obvious and frequently overlooked is the fact that a message in technical or professional jargon requires a recipient who understands such language. So, communication is not complete unless it is understood. *Understanding* is in the mind of both the sender and the receiver. Persons with closed minds will normally not completely understand messages, especially if the information is contrary to their value system.

International Perspective

Cross-Cultural Barriers

Misunderstandings increase when communicating is done in different languages. The German language, for example, is rather distinct in its formality and the way people are addressed. The formal *Sie* is seldom replaced by *Du.* It is only after people know each other for a long time and only after they know each other very well is the informal *Du* used. Similarly, adults usually address each other with *Herr* (Mr.) or *Frau* (Mrs.). The use of the first name is common only among relatives, very close friends, or children and teenagers. A non-German who is addressed with the formal *Sie* or the formal *Frau* or *Herr* may interpret such usage as meaning that the person does not like him or her or wants to maintain a social distance. This may not be true at all; the usage is simply dictated by cultural norms. On the other hand, if a German's casual acquaintance is addressed in German by his or her first name, she or he may be offended. While such distinctions in a language may appear unimportant to a non-German, they not only create communication barriers, but also may result in damaged relationships and possibly in a loss of business.

Noise Hindering Communication

Unfortunately, communication is affected by "noise," which is anything — whether in the sender, the transmission, or the receiver—that hinders communication. Here are examples of "noise":

"Noise" Anything–whether in the sender, the transmission, or the receiver–that hinders communication.

- A noise or a confined environment may hinder the development of a clear thought.
- Encoding may be faulty because of the use of ambiguous symbols.
- Transmission may be interrupted by static in the channel such as that experienced in a poor telephone connection.
- Inaccurate reception may be caused by inattention.
- Decoding may be faulty because the wrong meaning may be attached to words and other symbols.
- Understanding can be obstructed by prejudices.
- A desired change that is communicated may not occur because of the fear of possible consequences of the change.
- In cross-cultural communication, not only verbal expression, but also gestures and posture can cause miscommunication.

Feedback in Communication

To check the effectiveness of communication, a person must have *feedback*. One can never be sure whether or not a message has been effectively encoded, transmitted, decoded, and understood until it is confirmed by feedback. Similarly, feedback indicates whether individual or organizational change has taken place as a result of communication.

Entrepreneurial Perspective

Accepting Negative Feedback

Entrepreneurs are by nature optimistic. They believe in themselves and their vision for their companies. Also, they will and must receive feedback about their new venture vision. How the entrepreneur accepts and uses this feedback is critical to the survival of the venture. Venture capitalists and others will try to find holes or problems in the business plan of an entrepreneur. The entrepreneur must respectfully take this feedback and do her/his best to respond to it. The entrepreneur should never become defensive or combative about negative feedback, as this is a deal ender with most investors. Rather, the entrepreneur should acknowledge the criticism, provide a rational response if she/he has one, or agree to explore and correct the deficiency noted.

Situational and Organizational Factors in Communication

Many situational and organizational factors affect the communication process. Such factors in the external environment may be educational, sociological, legal, political, and economic. For example, a repressive political environment will inhibit the free flow of communication. Another situational factor is geographic distance. A direct face-to-face communication is different from a telephone conversation with a person on the other side of the globe and different from an exchange of cables or letters. Time must also be considered in communication. The busy executive may not have sufficient time to receive and send information accurately. Other situational factors that affect communication within an enterprise include the organization structure, managerial and nonmanagerial processes, and technology. An example of the latter is the pervasive impact of computer technology on the handling of huge amounts of data.

The communication process is affected by many situational and organizational factors.

The communication model provides an overview of the communication process, identifies the critical variables, and shows their relationships.

In summary, the communication model provides an overview of the communication process, identifies the critical variables, and shows their relationships. This in turn helps managers pinpoint communication problems so that they can take steps to solve them or, even better, prevent difficulties from occurring in the first place.

COMMUNICATION IN THE ORGANIZATION

In today's enterprises, information must flow fast. Even a short stoppage on a fast-moving production line can be very costly in terms of lost output. It is, therefore, essential that production problems be communicated quickly for corrective action to be taken. Another important element is the amount of information, which has greatly increased over the years, frequently causing an information overload. What is often needed is not more information but relevant information. It is necessary to determine what kind of information a manager needs to have for effective decision-making. Obtaining this information frequently requires getting information from managers' superiors and subordinates and also from departments and people elsewhere in the organization.

Management Perspective

Managing by Walking Around

Leadership demands information about what is really going on in the organization. Managers who never leave the office and who rely on formal communication channels may receive only the information that places subordinates in a favorable light. To overcome their isolation, managers need to supplement the formal communication channels with informal ones.

In their search for excellent companies, Thomas Peters and Robert Waterman noted that managers at United Airlines practice what has been labeled "management by walking around."[1] A similar practice is called "management by wandering around" at Hewlett-Packard. The belief is that managers will improve informal communication channels by walking through the plant.

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Innovative Perspective

Communicating with Portfolio Firms of a Venture Capital Company: An Interview with Elton Sherwin, Senior Managing Director at Ridgewood Capital

Leadership demands information about what is really going on in the organization. Managers who never leave the office and who rely on formal communication channels may receive only the information that places subordinates in a favorable light. To overcome their isolation, managers need to supplement the formal communication channels with informal ones.

Venture-financed firms, in particular, need close attention and guidance. We asked a leading Silicon Valley venture capitalist, Elton Sherwin, how he communicates with the start-up companies that his firm finances. Mr. Sherwin is the senior managing director at Ridgewood Capital where he invests across a broad range of technology companies, including clean tech and software. He also authored *The Silicon Valley Way*, which is a widely used entrepreneur's guide book used around the world as well as *Addicted to Energy*, A *Venture Capitalist's Perspective on How to Save Our Economy and Our Climate.*

Mr. Sherwin indicated he calls, emails, texts, mails books and mp3s, and visits the managers of his portfolio firms. He also spends time one-on-one with multiple members of the executive team, not just the CEO and CFO. Having invested in more than 25 companies, he stated, “Now when I see something that is broken I am tenacious about fixing it.”

The Manager's Need to Know

To be effective, a manager needs information necessary for carrying out managerial functions and activities. Yet, even a casual glance at communication systems shows that managers often lack vital information for decision-making or get too much information, resulting in overload. It is evident that managers must be discriminating in selecting information. A simple way for a manager to start is to ask, “What do I really need to know for my job?” or “What would happen if I did not get this information on a regular basis?” It is not maximum information that a manager needs but pertinent information. Clearly, there is no universally applicable communication system; rather, a communication system must be tailored to the manager’s needs.

Communication Flow in the Organization

In an effective organization, communication flows in various directions: downward, upward, and crosswise. Traditionally, downward communication was emphasized, but there is ample evidence that problems will develop if communication flows only downward. In fact, one could argue that effective communication has to start with the subordinate, and this means primarily upward communication. Communication also flows horizontally and diagonally. The different kinds of information flows are diagramed in Figure 17-3.

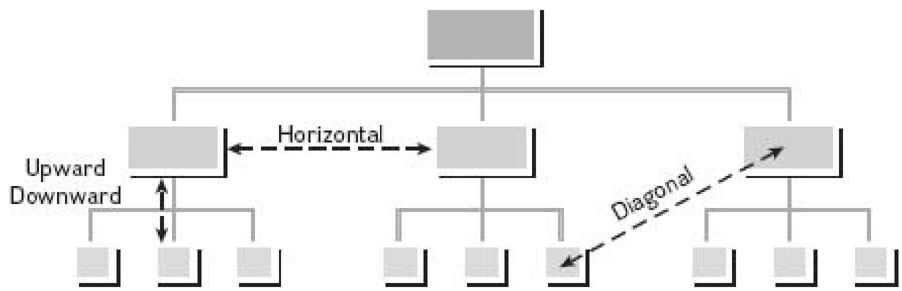

FIGURE 17-3 Information flow in an organization

Downward communication

Downward communication flows from people at higher levels to those at lower levels in the organizational hierarchy. This kind of communication exists especially in organizations with an authoritarian atmosphere. The media used for oral downward communication include instructions, speeches, meetings, the telephone, loudspeakers, and even the grapevine. Examples of written downward communication are memorandums, letters, handbooks, pamphlets, policy statements, procedures, and electronic news displays.

Downward communication flows from people at higher levels to those at lower levels in the organizational hierarchy.

Unfortunately, information is often lost or distorted as it comes down the chain of command. Top management's issuance of policies and procedures does not ensure communication. In fact, many directives are not understood or even read. Consequently, a feedback system is essential for finding out whether information was perceived as intended by the sender.

Downward flow of information through the different levels of the organization is time-consuming. Indeed, delays may be so frustrating that some top managers insist that information be sent directly to the person or group requiring it.

Upward communication

Upward communication travels from subordinates to superiors and continues up the organizational hierarchy. Unfortunately, this flow is often hindered by managers in the communication chain, who filter the messages and do not transmit all the information, especially unfavorable news, to their bosses. Yet, objective transmission of information is essential for control purposes. Upper management needs to know specifically production performance facts, marketing information, financial data, what lower-level employees are thinking, and so on.

Upward communication travels from subordinates to superiors and continues up the organizational hierarchy.

Upward communication is primarily nondirective and is usually found in participative and democratic organizational environments. Typical means of upward communication, besides the chain of command, are suggestion systems, appeal and grievance procedures, complaint systems, counseling sessions, joint setting of objectives, the grapevine, group meetings, the practice of an open-door policy, morale questionnaires, exit interviews, and the ombudsperson.

Until recently, the concept of the **ombudsperson** was used relatively little in the United States. It originated in Sweden, where a civil servant could be approached by a citizen to investigate complaints about the government bureaucracy. Now, some U.S. companies have established a position for a person who investigates employees' concerns. Companies have found that the ombudsperson can provide a valuable upward communication link. Effective upward communication requires an environment in which subordinates feel free to communicate. Since the organizational climate is greatly influenced by upper management, the responsibility for creating a free flow of upward communication rests to a great extent, although not exclusively, with superiors.

Ombudsperson A person assigned to investigate employee concerns, thus providing a valuable upward communication link.

Leadership Perspective

Lack of Upward Communication Can Be Disastrous

The lack of upward communication can be disastrous. In the 1986 space shuttle disaster, vital information apparently did not reach the top management at the National Aeronautics and Space Administration (NASA; Chapter 16). The Bank of America's top officials were surprised at the poor quality of their mortgage portfolio, which resulted in substantial losses for the bank.

In some organizations, upward communication is hindered by an organization culture and climate that "punishes" managers who communicate bad news or information with which top management does not agree. Indeed, the tendency to report only good news upward is quite common. Yet, correct information is absolutely necessary for managing an enterprise.

So what can managers do to facilitate the free flow of information? First, they must create an informal climate that encourages upward communication. An open-door policy is only useful when it is practiced. Second, the formal structure of information flow must be clear. Third, managers can learn a great deal by just wandering through the corridors. Hewlett-Packard is often mentioned as an example of open communication because of the practice of management by wandering around.

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Crosswise communication

Crosswise communication includes the **horizontal flow** of information among people on the same or similar organizational levels, and the **diagonal flow** among persons at different levels who have no direct reporting relationships with one another. This kind of communication is used to speed information flow, to improve understanding, and to coordinate efforts for the achievement of organizational objectives. A great deal of communication does not follow the organizational hierarchy but cuts across the chain of command.

Horizontal flow of information is among people on the same or similar organizational levels.
Diagonal flow of information is among persons at different levels who have no direct reporting relationships with one another.

The enterprise environment provides many occasions for oral communication, ranging from informal meetings of the company bowling team and lunch hours employees spend together to more formal conferences and committee and board meetings. This kind of communication also occurs when members of different departments form task teams or project groups. Finally, communication cuts across organizational boundaries when, for example, staff members with functional or advisory authority interact with line managers in different departments.

In addition, written forms of communication keep people informed about the enterprise. These written forms include the company newspaper or magazine and bulletin board notices. Modern enterprises use many kinds of oral and written crosswise communication patterns to supplement the vertical flow of information.

Because information flow may not follow the chain of command, proper safeguards need to be taken to prevent potential problems. Specifically, crosswise communication should rest on the understanding that crosswise relationships will be encouraged wherever they are appropriate; that subordinates will refrain from making commitments beyond their authority; and that subordinates will keep superiors informed of important interdepartmental activities. In short, crosswise communication may create difficulties, but it is a necessity in many enterprises in order to respond to the needs of the complex and dynamic organizational environment.

Written, Oral, and Nonverbal Communication[2]

Written and oral communication media have favorable and unfavorable characteristics; consequently, they are often used together so that the favorable qualities of each can complement the limitations of the other. In addition, visual aids may be used to supplement both oral and written communications. A lecture in a management training session may be made more effective by the use of written handouts, transparencies, videotapes, and films. Evidence has shown that a message that is repeated through several media will be more accurately comprehended and recalled by the receiver.

In selecting the media, one must consider the communicator, the audience, and the situation. An executive who feels uncomfortable in front of a large audience may choose written communication rather than a speech. On the other hand, certain audiences who may not read a memo may be reached and become motivated by direct oral communication.

Written communication

French managers are almost obsessed with the use of written communication, not only for formal messages, but also for informal notes. A French manager stated that something has no reality unless it is written down.

Written communication has the advantage of providing records, references, and legal defenses. A message can be carefully prepared and then directed to a large audience through mass mailings. Written communication can also promote uniformity in policy and procedure and can reduce costs in some cases.

The disadvantages are that written messages may create mountains of paper, may be poorly expressed by ineffective writers, and may provide no immediate feedback. Consequently, it may take a long time to know whether a message has been received and properly understood.

Innovative Perspective

Communicating with White Papers

White papers are a method of written communication among professionals that address important topics that are relevant to a firm, industry, or trend of interest. White papers can be technical (e.g., addressing an engineering issue) or conceptual in nature and should focus on a specific challenge and a specific target audience. White papers typically begin with a statement of the challenge faced by a target reader which should be very clear, compelling, and relevant, supported by well-sourced hard data, and timely for the target audience. The argument which addresses this challenge should be airtight and articulate and could be based on archival, first-hand, or theoretical research (e.g., a scholarly white paper). Well-written white papers are typically appreciated by the target audience and help establish the reputation of the writer as a thoughtful professional. A series of well-written white papers can help establish the writer as a thought leader in her/his chosen profession.

Oral communication

A great deal of information is communicated orally. Oral communication can occur in a face-to-face meeting of two people or in a manager's presentation to a large audience, it can be formal or informal, and it can be planned or accidental.

The principal advantage of oral communication is that it makes possible speedy interchange with immediate feedback. People can ask questions and clarify points. In a face-to-face interaction, the effect can be noted. Furthermore, a meeting with the superior may give the subordinate a feeling of importance. Clearly, informal or planned meetings can greatly contribute to the understanding of the issues.

However, oral communication also has disadvantages. It does not always save time, as any manager knows who has attended meetings in which no results or agreements were achieved. These meetings can be costly in terms of time and money.

Nonverbal communication

People communicate in many different ways. What a person says can be reinforced (or contradicted) by **nonverbal communication** such as facial expressions and body gestures. Nonverbal communication is expected to support the verbal, but it does not always do so. An autocratic manager may pound a fist on the table while announcing that from now on participative management will be practiced; such contradictory communications will certainly create a credibility gap. Similarly, managers may state that they have an open-door policy, but then they may have a secretary carefully screening people who want to see the managers. This creates incongruence between what managers say and what they do. This is an illustration of “noise” in the communication process model (Figure 17-2). Clearly, nonverbal communication may support or contradict verbal communication, giving rise to the saying that actions often speak louder than words.

Nonverbal communication includes facial expressions and body gestures.

Communication Methods

There are different methods and channels for communication: some are oral, some are written, and some use information technology. They range from face-to-face communication, group meetings, and the various kinds of written communication. Technology is used for certain types of communication, such as the wired and wireless telephone, fax, voice mail, and e-mail as well as teleconference and videoconference. We highlighted some of the advantages and disadvantages of various types of communication earlier, including speed of feedback, ease of use, cost, and time as well as formality and informality. You probably do not want to invite an honored guest by e-mail. On the other hand, for informal communication and if time is of the essence—the technology is available—you may want to use e-mail rather than “snail mail” (regular mail).

Other communication topics are discussed in other parts of the book. For example, the grapevine, the informal and unofficial communication channel, was discussed in Chapter 10. The impact of technology on communication will be discussed in Chapter 19.

Innovation by Observing Communication

Managers can help initiate and lead innovation efforts in their firms by observing patterns of communications—verbal and nonverbal—of their firm's customers. Observing customer interactions in a sales or service process, with a focus on nonverbal cues may provide truer feedback to a company's service. For example, customers may respond to a survey that they like or dislike a particular feature of a firm's product; however, by observing customers' attempts to use the product and taking note of facial expressions and body language, an adept manager may discern deeper truths. IDEO is a global design firm that pioneered a human-centered design approach to helping its clients develop better products and services. Its method for success relies partly on conducting extensive observational research of a client's customers in order to better understand customers' latent needs and desires. Thus, IDEO leverages the power of nonverbal communication to create and innovate and help its clients succeed in the market place.[3]

In addition to leveraging observation for market research, managers may also seek to better understand their organizations through a similar method of observation to best understand and identify problem as well as success factors of the organizations. This managerial observation method may provide subtler but perhaps more true insights into the organization than staff interviews or organizational climate surveys.

BARRIERS AND BREAKDOWNS IN COMMUNICATION[4]

It is probably no surprise that managers frequently cite communication breakdowns as one of their most important problems. However, communication problems are often symptoms of more deeply rooted problems. For example, poor planning may be the cause of uncertainty about the direction of the firm. Similarly, a poorly designed organization structure may not clearly communicate organizational relationships. Vague performance standards may leave managers uncertain about what is expected of them. Thus, the perceptive manager will look for the causes of communication problems instead of just dealing with the symptoms. Barriers can exist in the sender, in the transmission of the message, in the receiver, or in the feedback. Specific communication barriers are discussed later.

Lack of Planning

Good communication seldom happens by chance. Too often, people start talking and writing without first thinking, planning, and stating the purpose of the message. Yet, giving the reasons for a directive, selecting the most appropriate channel, and choosing proper timing can greatly improve understanding and reduce resistance to change.

Unclarified Assumptions

Often overlooked yet very important are the uncommunicated assumptions that underlie messages. A customer may send a note stating that she/he will visit a vendor’s plant. Then, the customer may assume that the vendor will meet her/him at the airport, reserve a hotel room, arrange for transportation, and set up a full-scale review of the program at the plant. But the vendor may assume that the customer is coming to town mainly to attend a wedding and will make just a routine call at the plant. These unclarified assumptions in both instances may result in confusion and the loss of goodwill.

Semantic Distortion

Another barrier to effective communication is semantic distortion, which can be deliberate or accidental. An advertisement that states “We sell for less” is deliberately ambiguous, begging the question: less than what? Words may evoke different responses. To some people, the word *government* may mean interference or deficit spending; to others, the same word may mean help, equalization, and justice.

Poorly Expressed Messages

No matter how clear the idea is in the mind of the sender of communication, the message may still be marked by poorly chosen words, omissions, lack of coherence, poor organization, awkward sentence structure, platitudes, unnecessary jargon, and a failure to clarify its implications. This lack of clarity and precision, which can be costly, can be avoided through greater care in encoding the message.

Communication Barriers in the International Environment[5]

Communication in the international environment is made more difficult because of different languages, cultures, and etiquette.[6] Translating advertising slogans is very risky. The slogan "Put a Tiger in Your Tank" by Exxon was very effective in the United States, yet it may be an insult to the people in Thailand. Colors have different meanings in different cultures. Black is often associated with death in many Western countries, while in the Far East white is the color of mourning. In business dealings, it is quite common in the United States to communicate on a first-name basis, yet in most other cultures, especially those with a pronounced hierarchical structure, people generally address one another by their surnames.

www.exxon.com

In the Chinese culture, words may not convey what people really mean because they may want to appear humble. For example, when a promotion is offered, the person may say that he or she is not qualified enough to assume great responsibility. But the expectation is that the superior will urge the subordinate to accept the promotion and will mention all the virtues and strengths of the candidate as well as his or her suitability for the new position.

International Perspective

Country Differences in Explicit and Implicit Communication

xCommunication patterns differ between countries with respect to the degree to which they are explicit or implicit. In countries such as Germany and the United States, one expects that people mean what they say. The need for precision is illustrated in the popularity of management by objectives, where goals are stated precisely in quantitative, measurable terms whenever possible. In contrast, Japanese communication is implicit; the meaning has to be inferred. For example, Japanese dislike saying “no” in communication; instead, a negative answer is couched in ambivalent terms. This has been demonstrated many times in trade agreements between Japan and the United States as well as between Japan and Europe.

While these observations may be, to some extent, an overgeneralization, managers who are aware of the different communication patterns still can benefit from this knowledge.

To overcome communication barriers in the international environment, large corporations have taken a variety of steps. Volkswagen, for example, provides extensive language training. Furthermore, it maintains a large staff of translators. Frequently, local nationals, who know best the host country’s language and culture, are hired for top positions. In the United States, foreign firms find it advantageous to hire students from their own country who are attending U.S. universities.

www.vw.com

Loss by Transmission and Poor Retention

In a series of transmissions from one person to the next, the message becomes less accurate. Poor retention of information is another serious problem. Thus, the necessity of repeating the message and using several channels is rather obvious. Consequently, companies often use more than one channel to communicate the same message.

Poor Listening and Premature Evaluation

There are many talkers but few listeners. Everyone probably has observed people entering a discussion with comments that have no relation to the topic. One reason may be that these persons are pondering their own problems—such as preserving their own egos or making a good impression on other group members—instead of listening to the conversation. Listening demands full attention and self-discipline. It also requires that the listener avoid premature evaluation of what another person has to say. A common tendency is to judge, to approve or disapprove what is being said, rather than trying to understand the speaker's frame of reference. Yet, listening without making hasty judgments can make the whole enterprise more effective and more efficient. For example, sympathetic listening can result in better labor-management relations and greater understanding among managers. Specifically, sales personnel may better understand the problems of production people and the credit manager may realize that an overly restrictive credit policy may lead to a disproportionate loss in sales. In short, listening with empathy can reduce some of the daily frustrations in organized life and result in better communication.

Impersonal Communication[7]

Effective communication is more than simply transmitting information to employees. It requires face-to-face contact in an environment of openness and trust. Improvement of communication often requires not expensive and sophisticated (and impersonal) communication media but the willingness of superiors to engage in face-to-face communication. Such informal gatherings, without status trappings or a formal authority base, may be threatening to a top executive, but the risks involved far outweighs the benefits that better communication can bring.

Distrust, Threat, and Fear

Distrust, threat, and fear undermine communication. In a climate containing these forces, any message will be viewed with skepticism. Distrust can be the result of inconsistent behavior by the superior or it can be due to past experiences in which the subordinate was punished for honestly reporting unfavorable but true information to the boss. Similarly, in light of threats, whether real or imagined, people tend to tighten up, become defensive, and distort information. What is needed is a climate of trust, which facilitates open and honest communication.

Insufficient Period for Adjustment to Change

The purpose of communication is to effect change that may seriously concern employees: shifts in the time, place, type, and order of work or shifts in group arrangements or skills to be used. Some communications point to the need for further training, career adjustment, or status arrangements. Changes affect people in different ways, and it may take time to think through the full meaning of a message. Consequently, for maximum efficiency, it is important not to force change before people can adjust to its implications.

Information Overload

One might think that more and unrestricted information flow would help people overcome communication problems. But unrestricted flow may result in too much information. People respond to information overload in various ways.[8] First, they may *disregard* certain information. A person getting too much mail may ignore letters that should be answered. Second, overwhelmed with too much information, people may *make errors* in processing it. For example, they may leave out the word “not” in a message, which reverses the intended meaning. Third, people may *delay* processing information, either permanently or with the intention of catching up in the future. Fourth, they may *filter* information. Filtering may be helpful when the most pressing and most important information is processed first and the less important messages receive lower priority. However, chances are that attention will be given first to matters that are easy to handle, while more difficult but perhaps critical messages are ignored. Finally, people respond to information overload by simply *escaping* from the task of communication. In other words, they ignore information or do not communicate it.

Some responses to information overload may be adaptive tactics that can, at times, be functional. For example, delaying the processing of information until the amount is reduced can be effective. On the other hand, withdrawing from the task of communicating is usually not a helpful response. Another way to approach the overload problem is to reduce the demand for information. Within an enterprise, this may be accomplished by insisting that only essential data be processed, such as information showing critical deviations from plans. Reducing external demand for information is usually more difficult because it is less controllable by managers. An example may be the government’s demand for detailed documentation on governmental contracts. Companies that do business with the government simply have to comply with these requests.

Other Communication Barriers

There are many other barriers to effective communication. In *selective perception*, people tend to perceive what they expect to perceive. In communication, this means that they hear what they want to hear and ignore other relevant information.

Closely related to perception is the influence of *attitude*, which is the predisposition to act or not to act in a certain way; it is a mental position regarding a fact or state. Clearly, if people have made up their minds, they cannot objectively listen to what is said.

Still other barriers to communication are differences in *status* and *power* between the sender and the receiver of information. Also, when information has to pass through several organizational *levels*, it tends to be distorted.

TOWARD EFFECTIVE COMMUNICATION[9]

The communication process model (Figure 17-2) helps identify the critical elements in the communication process. At each stage, breakdowns can occur: in the encoding of the message by the sender, in the transmission of the message, and in the decoding and understanding of the message by the receiver. Certainly, "noise" can interfere with effective communication at each stage of the process.

Entrepreneurial Perspective

Interview with Lori Teranishi, Coprincipal, IQPR, on Developing an Effective Enterprise Communication Strategy[10]

Lori Teranishi is coprincipal of IQPR, a public relations firm. She has worked extensively with start-ups and multinational corporations to develop their communications strategies and build as well as repair their corporate reputations. We asked Lori Teranishi to comment on the role of internal and external communications in organizational development. Ms. Teranishi indicated, "One essential component of a successful start-up or growing company that is too often overlooked is communications. An effective communications strategy builds the company's image internally among managers and employees, and externally for investors as well as current and potential customers and suppliers." She emphasized, "Communications establish and maintain a company's reputation within its industry and among the wider public."

With a firm's reputation so closely tied to its communications, we asked Ms. Teranishi to explain the changing role of communications as an organization grows. Lori explained, "From the very beginning, the way a company communicates internally defines its corporate culture. As a start-up grows, communications evolve from hallway meetings and discussions around the founder's desk, to a more formalized process involving a large number of people. What doesn't change is the need to make sure that the staff understands the corporate mission and values; that they understand the products and services that the company sells, and that they, themselves, can communicate this information to each other and to the outside world. Everyone in the company needs to be seen as a potential ambassador." She also noted that as the company grows, communications become more complex and requires knowledge that is more specialized. For example, communicating with investors, regulators, or the government may require an investment in additional resources to ensure that effective and accurate messages are transmitted. It becomes clear then that an effective communication strategy is essential to the proper execution of corporate goals and the development and maintenance of a firm's brand and competitive advantage.

Guidelines for Improving Communication

Effective communication is the responsibility of all persons in the organization, managers as well as nonmanagers, in working toward a common aim. Whether communication is effective can be evaluated by the intended results. The following guidelines can help overcome the barriers to communication.

1. ***Clarify the purpose of the message***

Senders of messages must clarify in their minds what they want to communicate. This means that one of the first steps in communicating is to clarify the purpose of the message and to make a plan to achieve the intended end.

2. *Use intelligible encoding*

Effective communication requires that encoding and decoding are done with symbols that are familiar to both the sender and the receiver of the message. Thus, the manager (and especially the staff specialist) should avoid unnecessary technical jargon, which is intelligible only to experts in their particular field.

3. *Consult others' views*

The planning of the communication should not be done in a vacuum. Instead, other people should be consulted and encouraged to participate: to collect the facts, analyze the message, and select the appropriate media. For example, a manager may ask a colleague to read an important memo before it is distributed throughout the organization. The content of the message should fit the recipients' level of knowledge and the organizational climate.

4. *Consider receivers' needs*

It is important to consider the needs of the receivers of the information. Whenever appropriate, one should communicate something that is of value to them, in the short run as well as in the more distant future. At times, unpopular actions that affect employees in the short run may be more easily accepted if they are beneficial to them in the long run. For instance, shortening the workweek may be more acceptable if it is made clear that this action will strengthen the competitive position of the company in the long run and avoid layoffs.

5. *Use appropriate tone and language and ensure credibility*

There is a saying that the tone makes the music. Similarly, in communication, the tone of voice, the choice of language, and the congruency between what is said and how it is said influence the reaction of the receiver of the message. An autocratic manager ordering subordinate supervisors to practice participative management will create a credibility gap that will be difficult to overcome.

6. *Get feedback*

Too often, information is transmitted without communicating. Communication is complete only when the message is understood by the receiver. And the sender never knows whether the message is understood unless he or she gets feedback. This is accomplished by asking questions, requesting a reply to a letter, and encouraging receivers to give their reactions to the message.

7. *Consider receivers' emotions and motivations*

The function of communication is more than transmitting information. It also deals with emotions, which are very important in interpersonal relationships between superiors, subordinates, and colleagues in an organization. Furthermore, communication is vital for creating an environment in which people are motivated to work toward the goals of the enterprise while they achieve their personal aims. Another function of communication is control. As explained in the discussion of management by objectives (MBO), control does not necessarily mean top-down control. Instead, the MBO philosophy emphasizes selfcontrol, which demands clear communication with an understanding of the criteria against which performance is measured.

8. *Listen*

Effective communication is the responsibility not only of the sender but also of the receiver of the information. Thus, listening is an aspect that needs additional comment.

Listening: A Key to Understanding

The rushed, never-listening manager will seldom get an objective view of the functioning of the organization. Time, empathy, and concentration on the communicator's message are prerequisites for understanding. People want to be heard, want to be taken seriously, and want to be understood. Thus, managers must avoid interrupting subordinates and putting them on the defensive. It is also wise both to give and to ask for feedback; without it, one can never be sure whether the message is understood. To elicit honest feedback, managers should develop an atmosphere of trust and confidence and a supportive leadership style, with a de-emphasis on status (such as barricading oneself behind an extra wide executive desk).

Listening is a skill that can be developed. John W. Newstrom and Keith Davis propose 10 techniques for improving listening: (1) stop talking, (2) put the talker at ease, (3) show the talker that you want to listen, (4) remove distractions, (5) empathize with the talker, (6) be patient, (7) hold your temper, (8) go easy on arguments and criticism, (9) ask questions, and (10) stop talking! The first and the last points are the most important: people have to stop talking before they can listen.[11]

Listening is a skill that can be developed through appropriate techniques.

Tips for Improving Written Communication

Effective writing may be the exception rather than the rule; nor do education and intelligence guarantee good writing. Many people fall into the habit of using technical jargon that can be understood only by experts in the same field. Common problems in written communication are that writers omit the conclusion or bury it in the report, are too wordy, and use poor grammar, inappropriate words, ineffective sentence structure, and incorrect spelling. Yet, a few guidelines may do much to improve written communication[12]:

- Use simple words and phrases.
- Use short and familiar words.
- Use personal pronouns (such as "you") whenever appropriate.
- Give illustrations and examples; use charts.
- Use short sentences and paragraphs.
- Use active verbs, such as "The manager *plans* . . . "

- Avoid unnecessary words.

John Fielden suggests that the writing style should fit the situation and the effect the writer wants to achieve.[13] Specifically, he recommends a *forceful* style when the writer has power, using a polite but firm tone. The *passive* style is appropriate when the writer is in a position lower than that of the recipient of the message. The *personal* style is recommended for communicating good news and making persuasive requests for action. The *impersonal* style is generally right for conveying negative information. The *lively* or *colorful* style is suitable for good news, advertisements, and sales letters. On the other hand, a less colorful style, combining the impersonal with the passive, may be appropriate for common business writing.

Tips for Improving Oral Communication

For some people, including executives, the thought of having to give a speech may cause nightmares. Yet, giving speeches and having fun doing it can be learned. A classic example of how one can learn oral communication is the Greek statesman Demosthenes, who, after being very discouraged following his poorly delivered first public speech, became one of the greatest orators through practice, practice, and practice.

Managers need to inspire, to lead, to communicate a vision. A clear idea of the organizational purpose is essential but insufficient for leading. This vision must be articulated. This means not only to state the facts, but also to deliver them in a way that inspires people by catering to their values, their pride, and their personal objectives.

Most of the tips for written communication also apply to oral communication. The following perspective provides helpful hints for improving oral communication.

Leadership Perspective

Learning from Newscasters[14]

Some of the most effective communicators are American television news anchors such as NBC's Tom Brokaw, ABC's Peter Jennings, and CBS's Dan Rather. How do they keep the television audience's attention despite the many attractive programs on other channels? Here are some hints you may use:

- Communicate with a large audience as you would do in a one-to-one conversation.
- Tell a story, an anecdote, and give examples.
- Pause—do not rush. In a discussion, a pause shows that you are listening.
- Use visual aids such as diagrams, charts, overhead slides, and computer graphic presentations.
- Communicate confidence and create trust. This can be done by a strong and clear voice, good posture, and a smile.
- Use a colorful, specific language and show through your body language that you are confident and are in command of the situation.

The next time you watch television, think what you can learn from the highly paid news anchors, who reach sometimes millions of people.

ELECTRONIC MEDIA IN COMMUNICATION[15]

Organizations are increasingly adopting various electronic devices that improve communication. Electronic equipment includes mainframe computers, minicomputers, personal computers, and e-mail systems as well as cell phones for making calls while on the move and beepers for keeping in contact with the office. The impact of computers on all phases of the management process will be discussed in Chapter 19 in connection with management information systems, and will therefore be mentioned only briefly here. Let us first look at telecommunication in general and at the increasing use of teleconferencing in particular.

Telecommunication

Telecommunication is now widely used. Many organizations have effectively used the new technology in a variety of ways:

- Some banks supply hardware and software to their corporate customers so that they can easily transfer funds to their suppliers.
- Several banks now make phone banking services available, even to individuals.
- Information can be transmitted within seconds or minutes to countries on the opposite side of the globe by fax or e-mail.
- Car makers stay in close contact with their suppliers through telecommunication means to inform them about their needs, thus permitting just-in-time delivery and reducing inventory costs.
- Computerized airline reservation systems facilitate flight booking.
- Many firms now have detailed personnel information, including performance appraisals and career development plans, in a data bank.

As you can see, there are many applications of telecommunication. But to make telecommunication systems effective, technical experts must make every effort to identify the real needs of organizations and their customers and to design systems that are useful and user-friendly. Let us now turn to a specific application of the new technology: teleconferencing.

Teleconferencing

Owing to the wide variety of systems, including audio systems, audio systems with snapshots displayed on a video monitor, and live video systems, the term *teleconferencing* is difficult to define. In general, most people think of a **teleconference** as a group of people interacting with each other by means of audio and video media with moving or still pictures.

Teleconference A group of people interacting with each other by means of audio and video media with moving or still pictures.

Full-motion video is frequently used to hold meetings among managers. Not only do they hear each other, but they can also see each other's expressions as well as visual displays. This kind of communication is of course rather expensive, and audio in combination with still video may be used instead. This method of communicating may be useful for showing charts or illustrations during a technical discussion.

Some of the potential advantages of teleconferencing include savings in travel expenses and travel time. Also, conferences can be held whenever necessary, since there is no need to make travel plans in advance. Because meetings can be held more frequently, communication is improved between, for example, headquarters and geographically scattered divisions.

There are also drawbacks to teleconferencing. Because of the ease in arranging meetings in this manner, they may be held more often than necessary. Moreover, since this approach uses rather new technology, the equipment is more prone to breakdowns. Most important, perhaps, teleconferencing is still a poor substitute for face-to-face meetings. Despite these limitations, increased use of teleconferencing is likely in the future.

New technologies for Information Handling and Networking

Electronic data processing now makes it possible to handle large amounts of data and to make information available to a large number of people. Thus, one can obtain, analyze, and organize timely data quite inexpensively. But it must never be forgotten that data are not necessarily information—information must inform someone. New computer graphics can inform visually, displaying important company information in a matter of seconds. At PepsiCo, Inc., managers used to dig through reams of computer printouts for information; now, they can quickly display a colored map showing their competitive picture.

The new information technology fundamentally changes communication.[16] **Instant messaging** shows whether a friend or colleague is connected to the Internet; if connected, messages can be exchanged instantly. Slack has become a workplace communication tool in recent years. And Zoom and Skype have become central for video conferencing. And WhatsApp and WeChat have become useful for group coordination.

SUMMARY

Communication is important for the internal functioning of the organization and for interaction with the external environment. Communication is the transfer of information from a sender to a receiver, with the information being understood by the receiver. The communication process begins with the sender, who encodes an idea that is sent in oral, written, visual, or some other form to the receiver. The receiver decodes the message and gains an understanding of what the sender wants to communicate. This, in turn, may result in some change or action. But the communication process may be interrupted by “noise,” which is anything that hinders communication.

In an organization, managers should have the information necessary for doing a good job. The information may flow not only downward or upward in the organization structure, but also horizontally or diagonally. Communication can be in written form, but more information is communicated orally. In addition, people communicate through gestures and facial expressions. A great variety of communication methods are available. For example, technology may be used for wired and wireless telephone, fax, voice, and email as well as teleconferences and video conferences.

Communication is hindered by barriers and breakdowns in the communication process. Recognizing these barriers and listening facilitate not only understanding, but also managing. Tips for improving written and oral communication are suggested.

Electronic media can improve communication, as illustrated by teleconferencing and the application of computers, two of many approaches to handling the increasing amount of information in organizations and coping with the trend of globalization.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Communication
- Communication process model
- “Noise” in communication
- Downward communication
- Upward communication
- Ombudsperson
- Crosswise communication
- Written communication: advantages and disadvantages
- Oral communication: advantages and disadvantagesNonverbal communication
- Barriers and breakdowns in communication
- Responses to information overload
- Guidelines for improving communication
- Listening as a key to understanding
- Teleconferencing
- Instant messaging

FOR DISCUSSION

1 Briefly describe the communication process model. Select a communication problem and determine the cause (or causes) by applying the model in your analysis.
2 List different channels for transmitting a message. Discuss the advantages and disadvantages of the various channels.

3 What are some kinds of downward communication? Discuss those used most frequently in an enterprise you are familiar with. How effective are the various types?
4 What are some problems in upward communication? What would you suggest for overcoming the difficulties?
5 What are the advantages and disadvantages of written and oral communication? Which do you prefer: written or oral? Under what circumstances?
6 What is information overload? Do you ever experience it? How do you deal with it?
7 How well do you listen? How could you improve your listening skills?
8 Discuss the role of electronic media in communication.

EXERCISES/ACTION STEPS

1 Recall a situation that occurred at home or at work and identify the communication problems that you observed or experienced. Discuss how the communication model in this chapter can help you locate the problems.
2 Go to the library and do research on a public figure who communicates well. Discuss this person's characteristics as they relate to communication.
3 Listen to an earnings' call. How does the CEO communicate with analysts?

INTERNET RESEARCH

1 Search the Internet for the term "electronic data processing" or "EDP." Find out the definition of the term and see how it evolved through the history of business communication.

2 Use a search engine to find out about various forms of wireless or mobile communications. How can each type of wireless device enhance your business communication capability?

Leadership Case

Transformational Communication by American Presidents[17]

Communication is not only important in organizations, but may have dramatic effects in politics, as illustrated by transformational rhetoric by U.S. presidents. Leadership means influencing people. This may be achieved not only by behavior, but also by rhetoric. Leaders are often remembered by important speeches. The most memorable one is by the U.S. President John R. Kennedy in his inaugural address when he said: “And so, my fellow Americans: ask not what your country can do for you - ask what you can do for your country. My fellow citizens of the world: ask not what America will do for you, but together we can for the freedom of man.” This speech may have inspired the founding of the Peace Corps, a volunteer program with the goals of providing technical assistance to other countries, understanding their cultures, and helping other countries to understand U.S. culture.

Another speech by President Ronald Reagan at the Brandenburg Gate in Berlin may have influenced the eventual downfall of the Berlin wall and the unification of East with West Germany. Reagan said: “General Secretary Gorbachev, if you seek peace, if you seek prosperity for the Soviet Union and Eastern Europe, if you seek liberalization: Come here to this gate! Mr. Gorbachev, open this gate! Mr. Gorbachev, tear down this wall!”

Questions

1 Do you think that the speeches by Kennedy and Regan influenced history?
2 Identify political or business leaders who influenced the direction of the company or country. What did they say? In what context did they say it? How effective was their communication?
3 How do you feel about giving a speech on a management topic in your class?

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Part 5 Closing

Major Principles or Guides for the Managerial Function of Leading

As mentioned in the Part Closings for planning, organizing, and staffing, experience and observation of managing indicate certain fundamental managerial principles or guides.

Each principle has a letter that represents the type of managerial function. The letter "L" in front of the principles indicated that it pertains to the managerial function of leading.

MAJOR PRINCIPLES OR GUIDES FOR LEADING

The managerial function of leading can be summarized by several principles or guides.

L1. *Principle of harmony of objectives*. The more managers can harmonize the personal goals of individuals with the goals of the enterprise, the more effective and efficient the enterprise will be.

L2. *Principle of motivation.* Since motivation is not a simple matter of cause and effect, the more managers carefully assess a reward structure, look upon it from a situational and contingency point of view, and integrate it into the entire system of managing, the more effective a motivational program will be.

L3. *Principle of leadership*. Since people tend to follow those who, in their view, offer them a means of satisfying their personal goals, the more managers understand what motivates their subordinates and how these motivators operate, and the more they reflect this understanding in carrying out their managerial actions, the more effective they are likely to be as leaders.

For organizational communication to be effective, managers should take note of the following principles.

L4. *Principle of communication clarity.* Communication tends to be clear when it is expressed in a language and transmitted in a way that can be understood by the receiver.

L5. *Principle of communication integrity.* The greater the integrity and consistency of written, oral, or nonverbal messages, as well as of the moral behavior of the sender, the greater the acceptance of the message by the receiver.

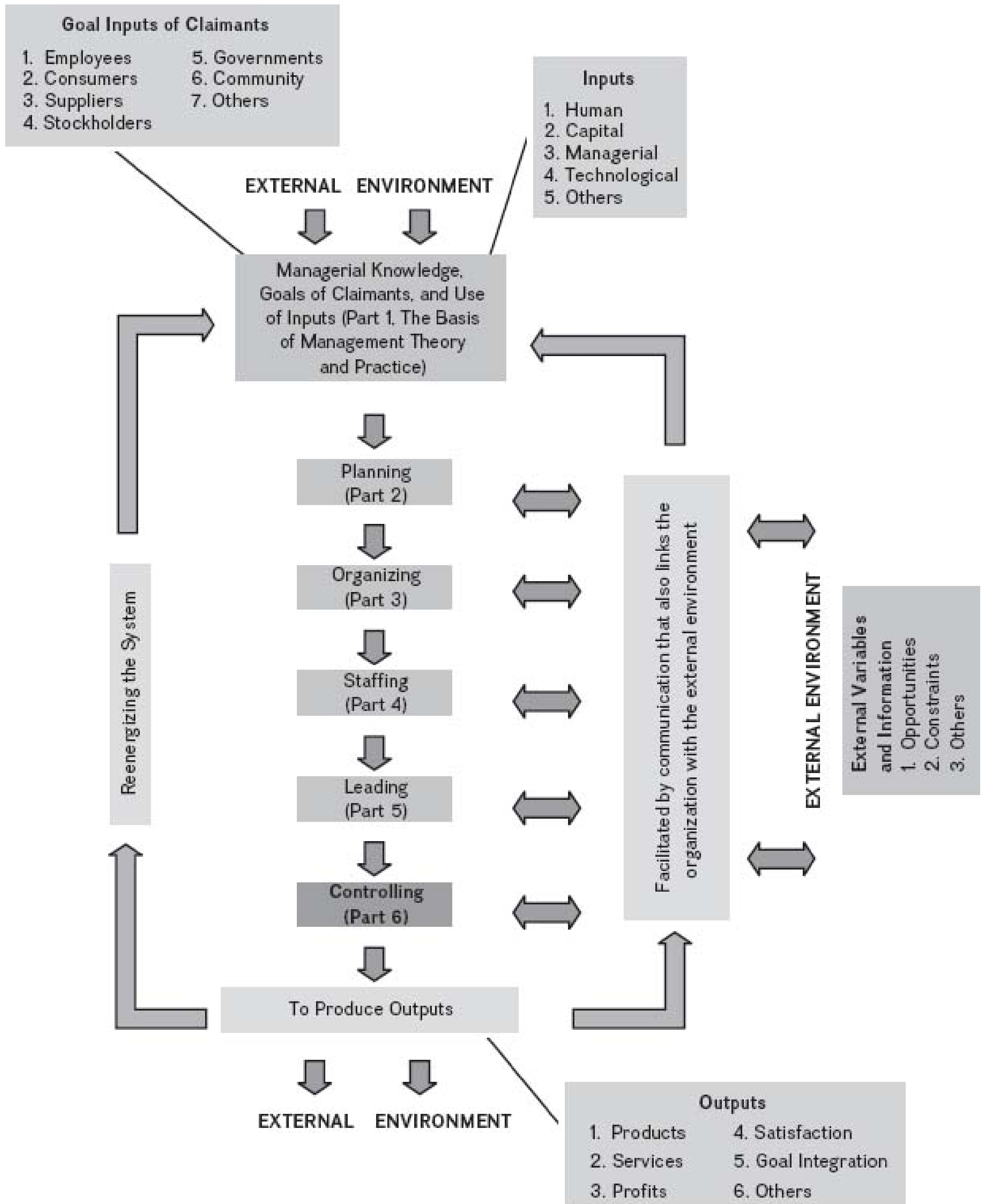
L6. *Principle of supplemental use of informal organization*. Communication tends to be more effective when managers utilize the informal organization to supplement the communication channels of the formal organization.

The sender has the responsibility to formulate the message so that it is understandable to the receiver. This responsibility pertains primarily to written and oral communication and points to the necessity for planning the message, stating the underlying assumptions, and applying the generally accepted rules for effective writing and speaking.

Informal organization is a phenomenon that managers must accept. Information, true or not, flows quickly through the informal organization. Consequently, managers should take advantage of this device to correct misinformation and to provide information that cannot be effectively sent or appropriately received through the formal communication system.

PART 6

Leading



SYSTEMS APPROACH TO MANAGEMENT: Controlling

Part 6

Chap. 18. The System and Process of Controlling

- The Basic Control Process
- Critical Control Points, Standards, and Benchmarking
- Control as a Feedback System
- Real-Time Information and Control
- Feedforward, or Preventive, Control
- Control of Overall Performance
- Profit and Loss Control
- Control Through Return on Investment
- Management Audits and Accounting Firms
- The Balanced Scorecard
- Bureaucratic and Clan Control
- Requirements for Effective Controls

Chap. 20. Productivity, Operations Management, and Total Quality Management

- Productivity Problems and Measurement
- Production and Operations Management: Manufacturing and Service
- The Operations Management System
- Tools and Techniques for Improving Productivity
- Supply Chain and Value Chain Management

Chap. 19. Control Techniques and Information Technology

- The Budget as a Control Device
- Traditional Nonbudgetary Control Devices and Time-Event Network Analysis
- Information Technology
- Opportunities and Challenges Created by Information Technology
- The Digital Economy, E-Commerce, and M-Commerce
- Customer Relationship Management (CRM)

Part 6 Closing: Summary of Major Principles or Guides for the Managerial Functions of Controlling

- Major Principles or Guides for Controlling
- The Purpose and Nature of Control
- The Structure of Control
- The Process of Control

CHAPTER 18

The System and Process of Controlling

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Describe the steps in the basic control process
2. Enumerate and explain the critical control points, standards, and benchmarking
3. Illustrate applications of the feedback system
4. Understand that real-time information will not solve all the problems of management control
5. Show that feedforward control systems can make management control more effective
6. Describe some of the most widely used techniques of overall control of an enterprise
7. Recognize the use and problems of management audits by accounting firms
8. Understand the difference between bureaucratic and clan control
9. List and explain the requirements for effective controls

While leaders provide a vision for the organization and their followers, they also need to implement that vision. This means that performance needs to adhere to plans, which requires controlling. The managerial function of **controlling** is the measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished. Planning and controlling are closely related. In fact, some writers on management think that these functions cannot be separated. It is wise to separate them conceptually, however, which is why they are discussed individually in parts 2 and 6 of this book. Still, planning and controlling may be viewed as the blades of a pair of scissors: the scissors cannot work unless there are two blades. Without objectives and plans, control is not possible because performance has to be measured against some established criteria.

Controlling The measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished.

BASIC CONTROL PROCESS

Control techniques and systems are essentially the same as controlling cash, office procedures, morale, product quality, and so on. The basic control process, wherever it is found and whatever is being controlled, involves three steps: (1) establishing standards, (2) measuring performance against these standards, and (3) correcting variations from standards and plans.

Establishment of Standards

Because plans are the yardsticks against which managers devise controls, the first step in the control process logically would be to establish plans. However, since plans vary in detail and complexity and since managers cannot usually watch everything, special standards are established. **Standards** are simply criteria of performance. They are the selected points in an entire planning program at which measures of performance are made so that managers can receive signals about how things are going, and thus do not have to watch every step in the execution of plans.

Standards Criteria of performance.

There are many kinds of standards. Among the best are verifiable goals or objectives, as suggested in the discussion of managing by objectives (Chapter 4). You will learn more about standards later, especially those that point out deviations at critical points.

Measurement of Performance

Although such measurement is not always practicable, the measurement of performance against standards should ideally be done on a forward- looking basis so that deviations may be detected in advance of their occurrence and avoided by appropriate actions. An alert, forward- looking manager can sometimes predict probable departures from standards. In the absence of such ability, however, deviations should be disclosed as early as possible.

Correction of Deviations

Standards should reflect the various positions in an organization structure. If performance is measured accordingly, it is easier to correct deviations. Managers know exactly where, in the assignment of individual or group duties, the corrective measures must be applied.

Correction of deviations is the point at which control can be seen as a part of the whole system of management and can be related to the other managerial functions. Managers may correct deviations by redrawing their plans or by modifying their goals. (This is an exercise of the principle of navigational change.) Or they may correct deviations by exercising their organizing function through reassignment or clarification of duties. They may correct, also, by additional staffing, by better selection and training of subordinates, or by that ultimate restaffing measure-firing. Another way is to correct through better leading-fuller explanation of the job or more effective leadership techniques.

BUSINESS ANALYTICS

A growing focus on management research and practice has been in the field of business analytics. The focus of business analytics is to make readily available advanced analysis of the treasure trove of data that organizations collect to the manager and decision maker to take better decisions for the course of the organization.[1] Often, there is a time delay from the collection of data to its analysis and its dissemination to users of this information to make key decisions for the benefit of the enterprise. Business analytics is focused on better systematizing the collection, analysis, and availability of key organizational data sets to allow the firm to act and respond more nimbly to changes in its market and competitive environment.

Some consulting firms such as ibm have built practices on helping their clients leverage the data they have collected. IBM refers to this practice as “Smarter Analytics,” with a promise to help its customer act more nimbly than their competitors with regard to identification of customer trends and the development of better business practices to reduce costs and mitigate risks.[2]

A focus on sustainable supply chain management has also come into play, with many large enterprises seeking to maximize efficiency and also long-term sustainability of their supply chains. This focus entails not only gathering data to analyze cost, but also methods to ensure ethical and environmentally sensitive business decisions.

CRITICAL CONTROL POINTS, STANDARDS, AND BENCHMARKING

Standards are yardsticks against which actual or expected performance is measured. In a simple operation, a manager might control through careful personal observation of the work being done. However, in most operations, this is not possible because of the complexity of the operations and the fact that a manager has far more to do than personally observe performance for a whole day. A manager must choose points for special attention and then watch them to be sure that the whole operation is proceeding as planned.

The points selected for control should be *critical*, in the sense either being limiting factors in the operation or better indicators than other factors of whether plans are working out. With such standards, managers can handle a larger group of subordinates and thereby increase their span of management, resulting in cost savings and improvement of communication. The **principle of critical point control**, one of the more important control principles, states that effective control requires attention to those factors critical to evaluating performance against plans. Another way of controlling is comparing company performance with that of other firms through benchmarking.

Principle of critical point control Effective control requires attention to factors critical to evaluating performance against plans.

Types of Critical Point Standards

Every objective, every goal of the many planning programs, every activity of these programs, every policy, every procedure, and every budget can become a standard against which actual or expected performance might be measured. In practice, however, standards tend to be of the following types: (1) physical standards, (2) cost standards, (3) capital standards, (4) revenue standards, (5) program standards, (6) intangible standards, (7) goals as standards, and (8) strategic plans as control points for strategic control.

Physical standards

Physical standards are nonmonetary measurements and are common at the operating level, where materials are used, labor is employed, services are rendered, and goods are produced. They may reflect quantities such as labor hours per unit of output, pounds of fuel per horsepower per hour, ton miles of freight traffic carried, units of production per machine hour, or feet of wire per ton of copper. Physical standards may also reflect quality such as hardness of bearings, closeness of tolerances, rate of climb of an airplane, durability of a fabric, or fastness of a color.

Cost standards

Cost standards are monetary measurements and, like physical standards, are common at the operating level. They attach monetary values to specific aspects of operations. Illustrative of cost standards are such widely used measures as direct and indirect costs per unit produced, labor cost per unit or per hour, material cost per unit, machine hour costs, cost per seat mile, selling cost per dollar or unit of sales, and cost per foot of oil well drilled.

Capital standards

There are a variety of capital standards, all rising from the application of monetary measurements to physical items. They have to do with the capital invested in the firm rather than with operating costs, and are therefore primarily related to the balance sheet rather than to the income statement. Perhaps, the most widely used standard for new investment as well as for overall control is return on investment. The typical balance sheet will disclose other capital standards such as the ratios of current assets to current liabilities, debt to net worth, fixed investment to total investment, cash and receivables to payables, and bonds to stocks as well as the size and turnover of inventories.

Revenue standards

Revenue standards arise from attaching monetary values to sales. They may include standards such as revenue per bus passenger mile, average sales per customer, and sales per capita in a given market area.

Program standards

A manager may be assigned to install a variable budget program, a program for formally following the development of new products, or a program for improving the quality of a sales force. Although some subjective judgment may have to be applied in appraising program performance, timing and other factors can be used as objective standards.

Intangible standards

More difficult to set are standards not expressed in either physical or monetary measurements. What standard can a manager use for determining the competence of the divisional purchasing agent or the personnel director? What can one use for determining whether the advertising program meets both short- and long-term objectives or whether the public relations program is successful? Are supervisors loyal to the company's objectives? Such questions show the difficulty of establishing standards or goals for clear quantitative or qualitative measurement.

Goals as standards

With the present tendency for better-managed enterprises to establish an entire network of verifiable qualitative or quantitative goals at every level of management, the use of intangible standards, while still important, is diminishing. In complex program operations as well as in the performance of managers themselves, modern managers are finding that through research and thinking it is possible to define goals that can be used as performance standards. While the quantitative goals are likely to take the form of the standards outlined above, the definition of qualitative goals represents an important development in the area of standards. For example, if the program of a district sales office is spelled out to include such elements as training salespeople in accordance with a plan with specific characteristics, the plan and its characteristics themselves furnish standards that tend to become objective and therefore "tangible."

Strategic plans as control points for strategic control

Strategic control requires systematic monitoring at strategic control points and modifying the organization's strategy based on this evaluation. As pointed out earlier, planning and controlling are closely related. Therefore, strategic plans require strategic control. Moreover, since control facilitates comparison of intended goals with actual performance, it also provides opportunities for learning, which in turn is the basis for organizational change. Finally, through the use of strategic control, one gains insights not only about organizational performance, but also about the ever-changing environment by monitoring it.

Strategic control Systematic monitoring at strategic control points and modifying the organization's strategy based on this evaluation.

Benchmarking[3]

Benchmarking is a concept that is now widely accepted. It is an approach for setting goals and productivity measures based on best industry practices. Benchmarking developed out of the need to have data against which performance can be measured. What should the criteria be? If a company needs six days to fill a customer's order and the competitor in the same industry needs only five days, five days does not become the standard if a firm in an unrelated industry can fill orders in four days. The four-day criterion becomes the benchmark, even when at first this seems to be an unachievable goal. The process involved in filling the order is then carefully analyzed and creative ways are encouraged to achieve the benchmark.

Benchmarking An approach for setting goals and productivity measures based on best industry practices.

There are three types of benchmarking. First, *strategic benchmarking* compares various strategies and identifies the key strategic elements of success. Second, *operational benchmarking* compares relative costs or possibilities for product differentiation. Third, *management benchmarking* focuses on support functions such as market planning and information systems, logistics, human resource management, and so on.

Three types of benchmarking: strategic, operational, and management.

The benchmarking procedure begins with the identification of what is to be benchmarked. Then, superior performers have to be selected. Data need to be gathered and analyzed, which become the basis for performance goals. During the implementation of the new approach, performance is periodically measured and corrective actions are taken at that time.

CONTROL AS A FEEDBACK SYSTEM

Managerial control is essentially the same basic control process as that found in physical, biological, and social systems. Many systems control themselves through information feedback, which shows deviations from standards and initiates changes. In other words, systems use some of their energy to feed back information that compares performance with a standard and initiates corrective action. A simple feedback system was shown in Figure 4-1 in Chapter 4.

Management control is usually perceived as a feedback system similar to that which operates in the common household thermostat. This can be seen clearly in Figure 18-1, which shows the feedback process in management control. This system places control in a more complex and realistic light than if it is regarded merely as a matter of establishing standards, measuring performance, and correcting for deviations. Managers do measure actual performance, compare this measurement against standards, and identify and analyze deviations. But then, to make the necessary corrections, they must develop a program for corrective action and implement this program in order to arrive at the performance desired.

Management control is usually perceived as a feedback system similar to the common household thermostat.

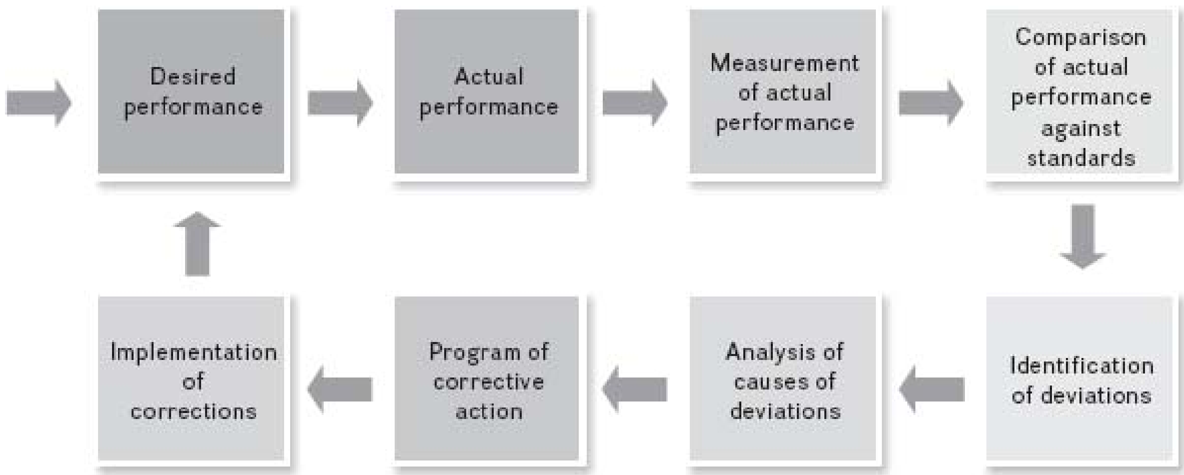


FIGURE 18-1 Feedback loop of management control

REAL-TIME INFORMATION AND CONTROL

One of the interesting advances rising from the use of the computer and from electronic gathering, transmission, and storage of data is the development of systems of **real-time information**. This is information about what is happening while it is happening. It is technically possible through various means to obtain real-time data on many operations. For years, airlines have obtained information about seat availability simply by entering a flight number, trip segment (e.g., London to New York), and date into a memory system, which immediately responds with the information. Supermarkets and department stores have electronic cash registers in operation that immediately transmit data on every sale to a central data storage facility, where inventory, sales, gross, profit, and other data can be obtained as sales occur. A factory manager can have a system that reports at any time the status of a production program in terms of such things as the production point reached, labor hours accumulated, and even whether the project is late or on time in the manufacturing process.

Real-time information Information about what is happening while it is happening.

Some people see real-time information as a means of getting realtime control in areas of importance to managers—in other words, control effected at the very time information shows a deviation from plans. But reference to the management control feedback loop in Figure 18-1 shows that real-time information does not, except possibly in the simplest and most unusual cases, make possible realtime control. It is possible in many areas to collect real-time data that measure performance. It may also be possible in many of these cases to compare these data with standards and even to identify deviations. But the analysis of causes of deviations, the development of programs of correction, and the implementation of these programs are likely to be time-consuming tasks.

In the case of quality control, for example, it may take considerable time to discover what is causing factory rejects and more time to put corrective measures into effect. In the more complex case of inventory control, particularly in a manufacturing company, which has many items—raw materials, component parts, goods in process, and finished goods—the correction time may be very long. Once it is learned that an inventory is too high, the steps involved in getting it back to the desired level may take a number of months. And so it goes with most other instances of management control problems; time lags are unavoidable.

This does not mean that prompt measurement of performance is unimportant. The sooner managers know that activities for which they are responsible are not proceeding in accordance with plans, the faster they can take action to make corrections. Even so, there is always the question of whether the cost of gathering real-time data is worth the few days saved. Often it is, as in the case of the airline business, in which ready information on seat availability is likely to be crucial to serving customers and filling airplanes. But in a major defense company producing one of the highest priority defense equipment items, there is little real-time information in an otherwise highly sophisticated information control system. Even for this program, it was thought that the benefit of gathering real-time data was not worth the expense because the correction process took so long.

Entrepreneurial Perspective

Interview with Dan Gordon, Cofounder, Gordon Biersch Brewing Company, on Controlling for Product Quality[4]

Gordon Biersch is a brewing company founded in 1987 by Dan Gordon and Dean Biersch. The firm has emphasized authentic German-style beers with exacting quality standards throughout its history. Dan Gordon, in fact, was the first American in more than 50 years to graduate from the five-year brewing engineering program at the prestigious Technical University of Munich at Weihenstephan, West Germany. After completing his training, Gordon teamed up with Biersch to open their first brewery restaurant in Palo Alto, California, in 1988. Since then, the company expanded nationally and internationally. While the brewery restaurants have been sold to another operating group, Dan Gordon continues to brew his premium beer in accordance with strict German quality standards at a state-of-the-art facility in San Jose, California.

We asked Dan Gordon to comment on his methods of controlling for quality of production after more than 20 years of successful brewing. Mr. Gordon explained, "Before undertaking any endeavor I believe success is predicated on a significant amount of hands on experience. I truly feel our key success factor was the amount of knowledge and expertise that Dean Biersch and I had going into the brewery restaurant business. Certainly, my brewing education was tantamount to the quality of the beer, but I also had a chance to work in several German breweries and tour hundreds of others breweries to gain critical knowledge. Our competitors were mostly restaurateurs without brewing experience or glorified home brewers with little or no restaurant experience." He continued, "Our location was dynamic and we were quickly recognized as the qualitative leader in our sector of the hospitality industry and created a significant brand. Good things happen once you are considered the best." Today, Dan

Gordon continues to emphasize premium ingredients, exacting standards, and state-of-the-art production systems. This discipline, combined with his distinctive education and experience, has formed the core of his company's competitive advantage as his business has grown for over two decades.

FEEDFORWARD OR PREVENTIVE CONTROL

The time lag in the management control process shows that control must be directed toward the future if it is to be effective. It illustrates the problem of only using feedback from the output of a system and measuring this output as a means of control. It shows the deficiency of historical data, such as those received from accounting reports. One of the difficulties with such historical data is that they tell business managers in November that they lost money in October (or even September) because of something that was done in July. At this late date, such information is only a distressingly interesting historical fact.

What managers need for effective control is a system that will tell them that, in time to take corrective action, certain problems will occur if they do not do something now. Feedback from the output of a system is not good enough for control. It is little more than a postmortem, and no one has found a way to change the past.

Managers need for effective control a system that will tell them potential problems, giving them time to take corrective action before those problems occur.

Future-directed control is largely disregarded in practice, mainly because managers have been so dependent for purposes of control on accounting and statistical data. To be sure, in the absence of any means of looking forward, reference to history—on the questionable assumption that what is past is prologue—is admittedly better than no reference at all.

Feedforward in Human Systems

There are many examples of feedforward control in human systems. A motorist, for example, who wishes to maintain a constant speed going up a hill would not usually wait for the speedometer to signal a drop in speed before depressing the accelerator. Instead, knowing that the hill represents a disturbing variable in the system, the driver would probably correct this by pressing the accelerator before speed falls. Likewise, a hunter will always aim ahead of a duck's flight to correct for the time lag between a shot and a hoped-for hit.

Feedforward versus Feedback Systems

Simple feedback systems measure outputs of a process and feed into the system or the inputs of the system corrective actions to obtain the desired outputs. For most management problems, because of time lags in the correction process, this is not good enough. Feedforward systems monitor *inputs* into a process to ascertain whether the inputs are as planned; if they are not, the inputs, or perhaps the process, are changed in order to obtain the desired results. A comparison of feedforward and feedback systems is depicted in Figure 18-2.

Feedforward systems monitor inputs into a process to ascertain if the inputs are as planned; if they are not, the inputs or the process is changed in order to obtain the desired results.

In a sense, a feedforward control system is really a kind of feedback system. However, the information feedback is at the *input* side of the system so that corrections can be made before the system output is affected. Also, even with a feedforward system, a manager would still want to measure the final system output, since nothing can be expected to work perfectly enough to ensure that the final output will always be exactly as desired.

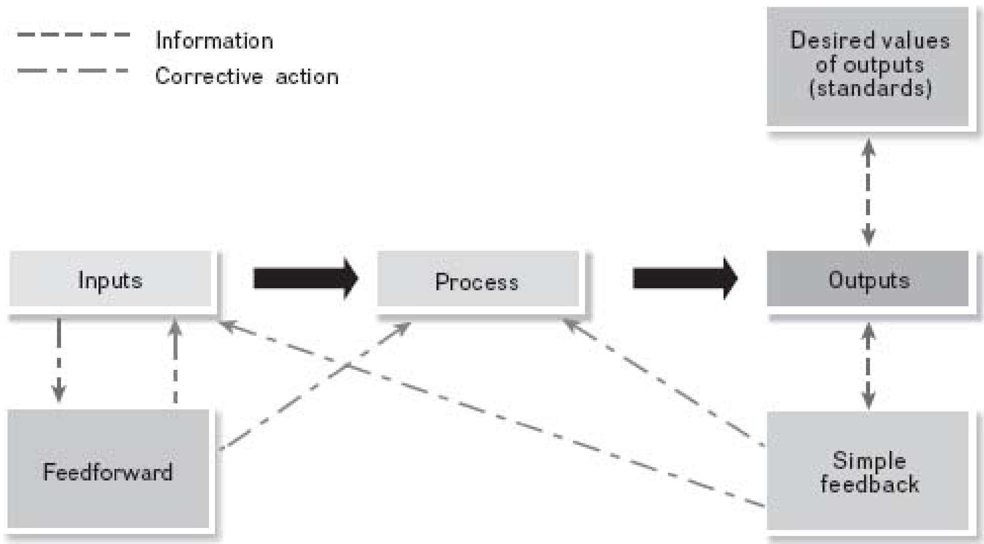


FIGURE 18-2 Comparison of simple feedback and feedforward systems Feedforward in Management

Feedforward in Management*

An idea of what feedforward means in management control can be conveyed through the example of inventory planning system. F igure 18-3 illustrates what is involved. The somewhat simplified schematic figure of input variables for inventory planning and control indicates that if managers are to exercise effective control over inventory, they must identify the variables in the system. Some of the variables have either a negative or a positive effect on inventory.

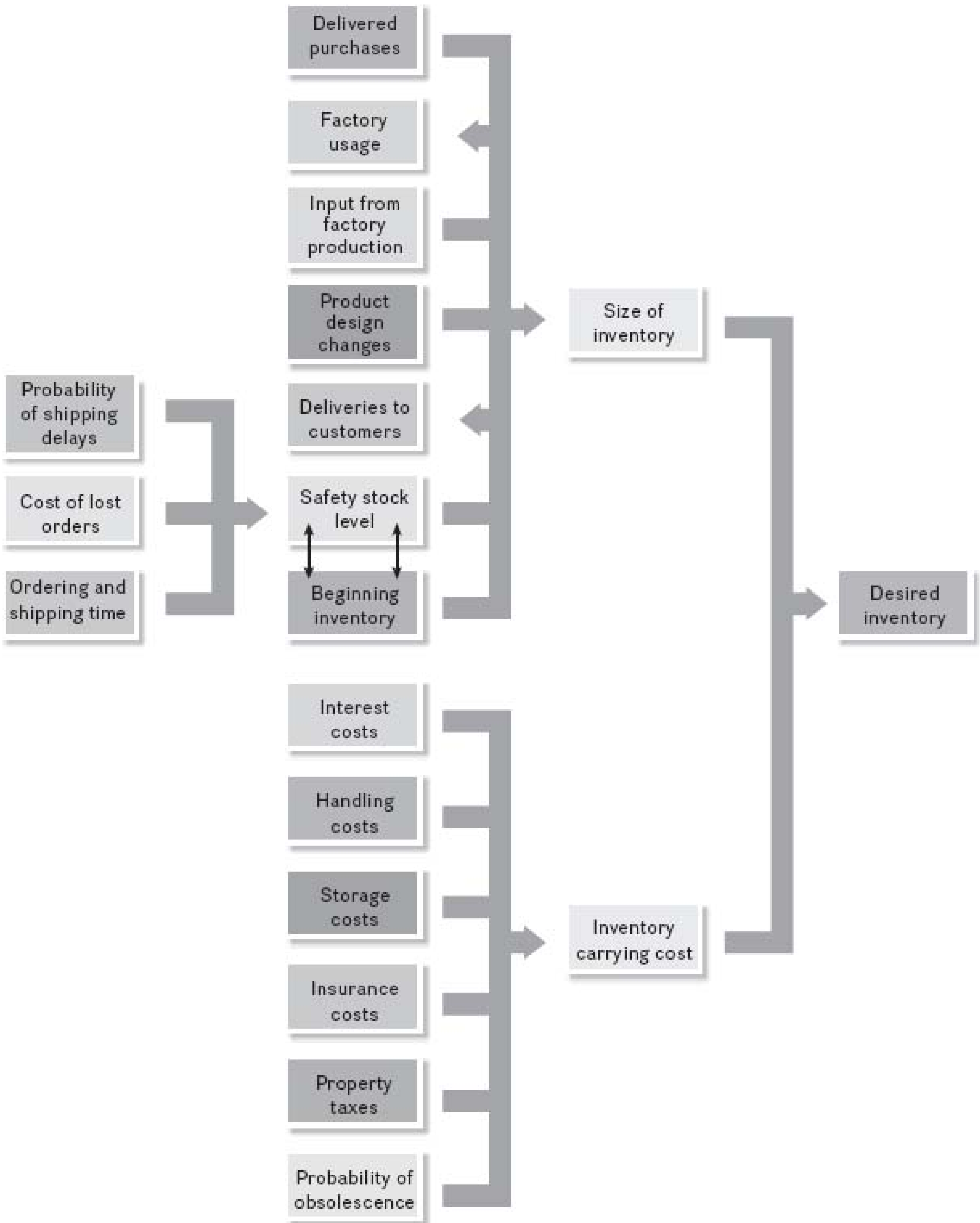


FIGURE 18-3 System of inputs for feedforward inventory control

Also, if the system of variables and their impact on a process are accurately portrayed—and each enterprise should design its own system, appropriate to the realities of its situation—a deviation from any planned input can result in an unplanned output, unless something is done about it in time. For example, in the case of the inventory model, if delivered purchases are greater than planned or if factory usage turns out to be less than planned, the result will be a higher than planned inventory, unless corrective action is taken. Of course, to make feedforward work in practice, inputs must be carefully monitored.

One of the problems in all feedforward control systems is the necessity of watching for what engineers call disturbances. These are factors which have not been taken into account in the input model but which may have an impact on the system and the desired end result. Obviously, it would be impracticable to take into account in a model all inputs that might possibly affect the operation of a program. For example, the bankruptcy of a large supplier might be an unanticipated and unprogrammed input variable and would delay the shipping of supplies. Since unprogrammed events do sometimes occur and may upset a desired output, monitoring regular inputs must be supplemented by watching for and taking into account unusual and unexpected disturbances.

Requirements for Feedforward Control

The requirements for a workable feedforward control system may be summarized as:

1. Make a thorough and careful analysis of the planning and control system and identify the more important input variables.
2. Develop a model of the system.
3. Take care to keep the model up-to-date; in other words, the model should be reviewed regularly to see whether the input variables identified and their interrelationships continue to represent realities.
4. Collect data on input variables regularly and put them into the system.

5. Regularly assess variations of actual input data from planned-for inputs and evaluate the impact on the expected end result.
6. Take action. Like any other technique of planning and control, all that the system can do is indicate problems; people must obviously take action to solve them.

CONTROL OF OVERALL PERFORMANCE

Planning and control are increasingly being treated as an interrelated system. Along with techniques for partial control, control devices have been developed for measuring the overall performance of an enterprise- or an integrated division or project within it-against total goals.

There are many reasons for control of overall performance. First, just as overall planning must apply to enterprise or major division goals, so must overall control be applied. Second, decentralization of authority, especially in product or territorial divisions, creates semi-independent units, and these must be subjected to overall control to avoid the chaos of complete independence. Third, overall control permits the measurement of an integrated area manager's total effort rather than parts of it.

Many overall controls in business are, as one might expect, financial. Business owes its continued existence to profit making; its capital resources are a scarce, life-giving element. Since finance is the binding force of business, financial controls are certainly an important objective gauge of the success of plans. Moreover, sophisticated computer programs can use financial records as strategic tools.[5]

Many overall controls in business are financial.

Financial measurements also summarize, as a common denominator, the operation of a number of plans. Further, they accurately indicate total expenditure of resources in reaching goals. This is true in all forms of enterprises. Although the purpose of an educational or government enterprise is not to make monetary profits, any responsible manager must have some way of knowing what goal achievement has cost in terms of resources. Proper accounting is important not only for business but for government as well.

Financial controls, like any other control, have to be tailored to the specific needs of the enterprise or the position. Doctors, lawyers, and managers at different organizational levels do have different needs for controlling their area of operation. Financial analyses also furnish an excellent "window" through which accomplishment in nonfinancial areas can be seen. A deviation from planned costs, for example, may lead a manager to find the causes in poor planning, inadequate training of employees, or other nonfinancial factors.

Entrepreneurial Perspective

Interview with Tom Lounibos, CEO of Soasta on Controlling[6]

How do entrepreneurial managers control their start-up firms which begin as largely unstructured, highly fluid organizations?

Tom Lounibos, the CEO of Soasta, a Silicon Valley software company, shared his experience. While privately held firms do not face the same scrutiny of public firms, they are accountable to their boards of directors. Measures such as revenue and profit are often not applicable to new ventures early in their life that are focused on building products. However, milestones for company performance do need to be set and accounted for. For example, when will the beta version of a product be complete? How many customers will use the beta version of the product? And, eventually, how many customers will pay for the product and what is the achievable price point?

With regards to sales forecasting, a clear understanding of the sales cycle is essential. Typically, higher-priced products involve a longer sales cycles of several months or longer. Revenue forecasts can only be made once this sales cycle is understood and planned for. If revenue targets are not being met, control systems to predict this revenue shortfall are necessary to allow the company to respond on reducing planned expenditures. The advantage of launching a new venture is that entrepreneurial managers can begin with a clean slate, unencumbered from a large organizational status quo. Still, managers must build an enterprise that is responsive to the market and able to plan and control a process for meeting company milestones and market expectations.

PROFIT AND LOSS CONTROL

The income statement for an enterprise as a whole serves important control purposes, mainly because it is useful for determining the immediate revenue or cost factors that have accounted for success or failure. Obviously, if it is first put in the form of a forecast, the income statement is an even better control device, in that it gives managers a chance, before things happen to influence revenues, expenses, and consequently profits.

The Nature and Purpose of Profit and Loss Control

Since the survival of a business usually depends on profits and since profits are a definite standard against which to measure success, many companies use the income statement for divisional or departmental control. As it is a statement of all revenues and expenses for a given time, it is a true summary of the results of business operations. Profit and loss control, when applied to divisions or departments, is based on the premise that if it is the purpose of the entire business to make a profit, each part of the enterprise should contribute to this purpose. Thus, the ability of a part to make an expected profit becomes a standard for measuring its performance.

The **profit and loss statement** shows all revenues and expenses for a given time, so it is a true summary of the results of business operations.

Limitations of Profit and Loss Control

Profit and loss control suffers from the cost of the accounting and paper transactions involving intracompany transfer of costs and revenues. But the use of computers has greatly reduced this cost. Duplication of accounting records, efforts involved in allocating the many overhead costs, and the time and effort required to calculate intracompany sales can make this control costly if it is carried too far.

CONTROL THROUGH RETURN ON INVESTMENT[7]

Another control technique is that of measuring both the absolute and the relative success of a company or company unit by the ratio of earnings to investment of capital. The return on investment approach, often referred to simply as ROI, has been the core of the control system of the Du Pont Company. This yardstick is the rate of return that a company or a division can earn on the capital allocated to it. This tool therefore regards profit not as an absolute but as a return on capital employed in the business. Accordingly, the goal of a business is seen not necessarily as optimizing profits but as optimizing return from capital devoted to business purposes. This standard recognizes the fundamental fact that capital is a critical factor in almost any enterprise and, through its scarcity, limits progress. It also emphasizes the fact that the job of managers is to make the best possible use of assets entrusted to them.

Return on investment control measures both the absolute and the relative success of a company or company unit by the ratio of earnings to investment of capital.

MANAGEMENT AUDITS AND ACCOUNTING FIRMS

Although many management consulting firms have undertaken various kinds of appraisals of management systems, usually as part of an organizational study, the greatest interest in pursuing management audits has been demonstrated by accounting audit firms. One of the significant developments has been their entry into the field of management services of a broad consultancy nature. While this has been an attractive field of expansion for these auditing companies, since they are already inside an organization and the financial information to which they have access furnishes a ready window on problems of managing, it does open the question of conflict of interest. In other words, the question is whether the same firm can be in the position of a management consultant furnishing both advice and services and still be completely objective as an accounting auditor. To be sure, accounting firms have attempted to avoid this problem by organizationally separating these two activities.

Accounting firms had enjoyed a great deal of trust, but this changed when U.S. federal prosecutors charged the accounting firm Arthur Andersen with obstruction of justice in connection with the collapse of Enron in 2002.[8]

BUREAUCRATIC AND CLAN CONTROL

Organizations exercise control in different ways. One can distinguish between two kinds of structural control: the bureaucratic and the clan control. **Bureaucratic control** is characterized by a wide use of rules, regulations, policies, procedures, and formal authority. This kind of control requires clear job descriptions, budgets, and often standardized tasks. Employees are expected to comply with the rules and regulations and may have limited opportunities for participation.

Bureaucratic control is characterized by the wide use of rules, regulations, policies, procedures, and formal authority.

Clan control, on the other hand, is based on norms, shared values, expected behavior, and other aspects relating to organization culture, which was discussed in Chapter 10.[9] Clan control can be illustrated by the use of teams and by organizations operating in a very dynamic environment that requires quick adaptation to changes in that environment. Nokia, the largest wireless phone manufacturer in

Finland, tries to keep bureaucracy at a minimum and instead create an environment consistent with Finnish culture.

Clan control is based on norms, shared values, expected behavior, and other cultural variables.
www.nokia.com

REQUIREMENTS FOR EFFECTIVE CONTROLS

All alert managers want to have an adequate and effective system of controls to assist them in making sure that events conform to plans. It is sometimes not realized that the controls used by managers must be designed for the specific task and person they are intended to serve. While the basic process and the fundamentals of control are universal, the actual system requires special design.

Indeed, if controls are to work, they must be tailored to plans and positions, to the individual managers and their personalities, and to the needs for efficiency and effectiveness.

Tailoring Controls to Plans and Positions

All control techniques and systems should reflect the plans they are designed to follow. They should also be tailored to positions. What will be appropriate for a vice president in charge of manufacturing will certainly not be suitable for a shop supervisor. Controls should also reflect the organization structure, showing who is responsible for the execution of plans and for any deviation from them.

Tailoring Controls to Individual Managers

Controls must also be tailored to individual managers. Control systems and information are, of course, intended to help individual managers carry out their function of control. If they are not of a type that a manager can or will understand, they will not be useful. What individuals cannot understand, they will not trust. And what they do not trust, they will not use.

Designing Controls to Point up Exceptions at Critical Points

One of the most important ways of tailoring controls to the needs for efficiency and effectiveness is to design them to point up exceptions. In other words, controls that concentrate on exceptions from planned performance allow managers to benefit from the time-honored *exception principle* and detect areas that require their attention.

But it is not enough merely to look at exceptions. Some deviations from standards have little meaning, while others have a great deal. Small deviations in certain areas may have greater significance than larger exceptions in other areas. A manager might be concerned if the cost of office labor deviated from the budget by 5 percent, but might be unworried if the cost of postage stamps deviated from the budget by 20 percent.

Consequently, the exception principle should be accompanied in practice by the *principle of critical point control.* It is not enough just to look for exceptions; one must look for them at critical points. Certainly, the more that managers concentrate their control efforts on exceptions, the more efficient their control will be. But effective control requires that managers pay primary attention to things that are most important.

Efficient control requires that managers look for exceptions, while effective control requires that managers pay primary attention to things that are most important.

Seeking Objectivity of Controls

Management necessarily has many subjective elements, but whether a subordinate is doing a good job should ideally not be a matter for subjective determination. If controls are subjective, a manager's or a subordinate's personality may influence judgments of performance and make them less accurate. However, people would have difficulty dismissing control of their performance if the standards and measurements are kept up-to-date through periodic review. Effective control requires objective, accurate, and suitable standards.

McDonalds, for example, is very strict in applying and maintaining the same quality standards in all its restaurants, as you have seen in the McDonalds case discussed in Chapter 1.

www.mcdonalds.com

Ensuring Flexibility of Controls[10]

Controls should remain workable in the face of changed plans, unforeseen circumstances, or outright failures. If controls are to remain effective despite failure or unexpected changes of plans, they must be flexible.

If controls are to remain effective despite failure or unexpected changes of plans, they must be flexible.

The need for flexible control can readily be illustrated. A budget system may project a certain level of expenses and grant authority to managers to hire labor and purchase materials and services at this level. If, as is usually the case, this budget is based on a forecast of a certain level of sales, it may become meaningless as a system of control if the actual sales volume is considerably above or below the forecast. Budget systems have been brought into ill repute in some companies because of inflexibility in such circumstances. What is needed, of course, is a system that will reflect sales variations as well as other deviations from plans.

Fitting the Control System to the Organization Culture

To be most effective, any control system or technique must fit the organization culture. If an organization has given its employees considerable freedom and participation, a tight control system may go so strongly against the grain that it will be doomed to failure. On the other hand, if subordinates have been managed by a superior who allows little participation in decision-making, a generalized and permissive control system will hardly succeed. People, who have little desire to participate or who are not accustomed to participating, are likely to want clear standards and measurements and specific directions. At one time, Mercedes-Benz, the luxury car maker, publicized that each of its cars underwent checks by many inspectors. But later, with a change in organization culture, a great deal of responsibility for quality was given to individual production workers.

To be most effective, any control system or technique must fit the organization culture.
www.mercedes.com

Achieving Economy of Controls

Controls must be worth their costs. Although this requirement is simple, it is often difficult to accomplish in practice. A manager may have difficulty ascertaining what a particular control system is worth or what it costs. Economy is relative, since the benefits of control vary with the importance of the activity, the size of the operation, the expense that might be incurred in the absence of control, and the contribution the system can make.

Controls must be worth their costs.

Establishing Controls that Lead to Corrective Action

An adequate system will disclose where failures are occurring and who is responsible for them, and it will ensure that corrective action is taken. Control is justified only if deviations from plans are corrected through appropriate planning, organizing, staffing, and leading. As mentioned in Chapter 13, General Electric and Motorola aim at Six Sigma quality or no more than 3.4 defects for a million operations.[11]

An adequate control system will disclose where failures are occurring and who is responsible for them as well as ensuring that corrective action is taken.

SUMMARY

The managerial function of controlling is the measurement and correction of performance in order to ensure that enterprise objectives and the plans devised to attain them are being accomplished. It is a function of every manager, from president to supervisor.

Control techniques and systems are basically the same, regardless of what is being controlled. Wherever it is found and whatever is being controlled, the basic control process involves three steps: (1) establishing standards, (2) measuring performance against these standards, and (3) correcting variations from standards and plans. There are different kinds of standards and all should point out deviations at critical points. Performance can be measured against best industry practices, an approach known as benchmarking.

Managerial control is usually perceived as a simple feedback system similar to the common household thermostat. However, no matter how quickly information is available on what is occurring (even real-time information, which is information on what is happening as it happens), there are unavoidable delays in analyzing deviations, developing plans for taking corrective action, and implementing these programs. In order to overcome these time lags in control, it is suggested that managers utilize a feedforward control approach and not rely on simple feedback alone. Feedforward control requires designing a model of a process or system and monitoring inputs with a view to detecting future deviations of results from standards and plans, thereby giving managers time to take corrective action before problems occur.

Many overall controls are financial, one of which is profit and loss control. Another is the exercise of control through calculating and comparing return on investment. This approach is based on the idea that profit should be considered not as an absolute measure but as a return on the capital employed in a business or a segment of it. The management audit has also been used as a control device. Bureaucratic control is based on rules, regulations, policies, procedures, and formal authority. On the other hand, clan control is influenced by norms, shared values, and expected behavior.

If controls are to work, they must be specially tailored to plans and positions, to individual managers, and to the needs for efficiency and effectiveness. To be effective, controls also should be designed to point up exceptions at critical points, to be objective, to be flexible, to fit the organization culture, to be economical, and to lead to corrective action.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Controlling

Steps in controlling

- Critical point control
- Types of critical point standards
- Benchmarking
- Feedback system
- Real-time information system
- Feedforward control
- Profit and loss control
- Return on investment control
- Management audit
- Bureaucratic control
- Clan control
- Requirements for effective controls
- Exception principle
- Principle of critical point control

FOR DISCUSSION

1. Planning and control are often thought of as a system; control is also often referred to as a system. What do these observations mean? Can both statements be true?
2. Why is real-time information not good enough for effective control?
3. What is feedforward control? Why is it important to managers? Besides the example of inventory control mentioned in this chapter, can you think of any other areas in which feedforward would be used? Select one of these and explain how you would proceed.
4. Why do most controls of overall performance tend to be financial? Should they be? What else would you suggest?
5. "Profit and loss control is defective in that it does not emphasize return on investment; the latter is defective in that it places too great an emphasis on present results, possibly endangering future results." Discuss.
6. If you were asked to institute a system of "tailored" controls in a company, how would you go about it? What would you need to know?
7. In benchmarking, companies compare their performance with best practices. Why do you think firms that have an effective system are willing to share information with other companies?

EXERCISES/ACTION STEPS

1. Design a control system for measuring the progress that you make in your course work. Apply the feedback and feedforward concepts discussed in this chapter.

2. Interview two managers about the controls used in their companies. Can you identify standards against which performance can be accurately measured? How is performance measured against the standards and how timely is the reporting of deviations? If deviations are detected, how long does it take before corrections are made in specific situations?
3. The widespread use of analytics among organizations requires more people with education in this field. Explore the curriculum of your university to identify classes in analytics or statistics that you may want to take to enhance your capabilities in this emerging field.

INTERNET RESEARCH

1. Search the Internet for the term "feedforward control." How does it differ from feedback control?
2. Search the Internet for the term "profit and loss statement." What is it?

International Case

Walmart in America and around the Globe[12]

Walmart ranked number 2 in 2011 among the Fortune 500 companies after being number 1 the previous two years. The decline was partly due to declining economy and slow recovery in the United States. While the company had difficulties in the U.S. market, the international market grew. The company has one of the most sophisticated logistic systems controlled by computers. Yet, its headquarters are located in a small town in Bentonville, Arkansas. The small-town orientation in its business approach contributed to its value-based success story.

Success did not come by accident; rather, it is based on careful planning of a unique strategy, a simple organization structure, an effective human resource policy, an inspiring leadership style initiated by founder Sam Walton, and a clever use of information technology to manage its inventory. When the company made mistakes, it learned from them. One concern is whether the strategy of invading rural areas will also work in the urban areas of the United States and in the global environment.

The Background

It all began in 1962 in a small town in Arkansas when Sam Walton noted the need for serving customers in small towns. Retailers such as Kmart and Sears focused on big towns. This created an opportunity for Walmart to fill people's needs in rural areas. This small-town orientation is reflected in the company's values, which emphasize maintaining good relationships with staff as well as suppliers. Sam Walton's values and his philosophy of simplicity and frugality live on after his death. The focus on cost savings enables the company to offer "everyday low prices," which has become a familiar company slogan.

Planning: From Small Towns to a Global Strategy

Besides the traditional stores, the company has Supercenters with a full line of groceries for one-stop family shopping. They may also include specialties shops with a vision center, tire and lubrication facilities, and photo processing. In addition, Sam's Club is a members-only warehouse club for individual and business members.

Since the early 1990s, Walmart has gone international, starting with a Sam's Club store near Mexico City. Now, Walmart operates clubs and stores worldwide in countries such as

Argentina, Brazil, Canada, China, Germany, South Korea, Mexico, Puerto Rico, and the United Kingdom, employing more than 280,000 people.

The tremendous size of the company gives it a great deal of buying power, which in turn makes it possible to offer goods at low prices, a policy that differentiates Walmart from other retailers. The company is known for its national brand strategy, which allows consumers to compare prices. In addition, Walmart has its own private labels with product offerings in apparel, health and beauty care, dog food, and other items.

In its hub and spoke distribution system, merchandise is brought to a distribution center, where it is sorted and prepared for delivery to the stores. These highly automated distribution centers operate 24 hours a day and may serve some 150 stores. Other merchandize is shipped directly from the suppliers to the stores.

Simple Organization Structure: Centralized and Decentralized

While the company's proprietary information system is centralized, the operation is decentralized, with a great deal of authority delegated to local managers in, for example, pricing the merchandise according to the local environment. The autonomy given to store managers makes them in a sense a small shopkeeper who can make decisions to adjust inventory according to local needs. Employees, called associates, are informed and celebrated at the Saturday morning meetings, where they are cheered for their accomplishments. The meetings also provide an opportunity to reinforce the notion that the customer is number 1.

Walmart's organization culture is built on three basic values promulgated by Sam Walton. It was established in 1962 and still permeates the organization. The values are (1) respect for the individual, (2) service to the customer, and (3) striving for excellence. Other factors influencing the organization culture include exceeding the expectations of customers, assisting people so that they can make a difference, quickly approaching customers to help, doing today what can be done today rather than postponing it, and pricing for providing value to the customer.

Human Resource Management: People, the Most Important Assets

Clearly, the organization culture has an impact on the staffing function. Associates are treated with respect in this lean organization. Having a great deal of authority motivates people. Training is decentralized with management seminars offered at the distribution centers instead of at the company headquarters. The company atmosphere encourages employees to submit suggestions, many of them being implemented through the “Yes We Can Sam” suggestion system. Associates are rewarded bonuses for cost reduction through the “shrink incentive plan.” Supervisors and managers receive a salary as well as incentive compensation based on store performance. Associates can also participate in a profit-sharing plan with Walmart contributing a certain percentage.

Leadership by Example: Simple Frugality Communicated Effectively

Sam Walton provided leadership by example. His philosophy influenced his style. Once the richest person in America, he was a very frugal man, flying economy class and driving an old pickup truck. Similarly, Lee Scott, the present CEO, drives a Volkswagen Beetle. Sam Walton was a good communicator during his time as CEO, and his style was described as “management by walking and flying around” because of his frequent visits to his stores. Although he felt that trusting people and giving them responsibility was essential in managing people effectively, he also had the necessary control systems. Although Walton passed away in 1992, his legacy and philosophy still permeate his organization, as shown by the spartanly furnished headquarters in Bentonville.

Controlling a Large Organization: Sharing Information and Technologies with Suppliers

One of the key factors for Walmart's success is the inventory system that uses modern technology. The proprietary computer-controlled logistic system is considered one of the largest in America, ranking just below the Pentagon's system. The store manager can easily find out how his or her department managers are doing and which products are in high demand. Walmart's inventory turns over about twice as fast as the industry average, thus reducing inventory costs. Suppliers, who are considered a part of the Walmart family, also have access to the system and receive real-time data to help them plan for the fast-moving items.

The relationship with suppliers is, however, very businesslike. Contracts are negotiated in rooms furnished with a table and some chairs-no plush offices can be found. What is found, however, is a sign that says Walmart's buyers do not accept bribes, which could influence buying decisions.

Global Challenges for the Future[13]

Although Walmart has been successful, there are considerable challenges ahead. To continue its growth, Walmart would have to continue aggressively with opening new stores at home and abroad. In addition, product and service offerings need to be expanded, such as providing banking services as well as adding food. International expansion is another way to grow. The company has been successful in the expansion into Canada and Mexico, but other strategies have been less successful. One such example was the move into Germany, which the company did not plan carefully. Lee Scott attributes the failure to poor management. The company tries to learn from its mistakes and impresses on its associates to provide good service with a smile. In fact, a big problem for the rapidly growing company is developing competent managers and associates.

Domestically, the Walmart image has been hurt by the publicity on the impact of the big retailer on small communities.

The “60 Minutes” television program showed how small retailers of small towns could not effectively compete against the giant and were driven out of business. Still, consumers in the small communities were attracted by the everyday low prices. Walmart has also been cited for the low healthcare benefits given to its employees. Perhaps, partly to divert attention from this issue, the company drew attention to the high healthcare cost in America with a strategy of reducing drastically prices of several generic drugs in its stores, starting in Florida. While critics see this as a publicity move, consumers welcome it.[14]

One of Walmart’s latest attempts to remain the world’s largest retailer is to become the neighborhood grocer, which has created fear among other food stores. Food business is big business. People may shop once or more times a week for food. At the same time, they may be enticed to buy other goods Walmart has to offer.[15]

Walmart effectively practiced the managerial functions of planning, organizing, staffing, leading, and controlling, which led to its remarkable success, but challenges remain. Companies such as Costco and Kmart as well as foreign firms such as the French Carrefour and the German Metro (although both are much smaller than Walmart) are attempting to take business away from Walmart.

Questions

1. With a saturation of stores in the rural areas in America, can Walmart employ the same strategies for setting up stores in the cities? Why or why not? What difficulties may the company encounter?
2. Can the organization culture, which was so effective in the United States, be transferred to other countries? What changes, if any, would you suggest?
3. Could competitors copy the inventory system of Walmart?
4. Would you like to be a manager at Walmart? Why or why not?

5. What should Walmart do to be successful in other countries?
6. How can Walmart control the global enterprise?

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* Sometimes called preliminary control or steering control.

CHAPTER 19

Control Techniques and Information Technology

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Explain the nature of budgeting and the types of budgets
2. Describe zero-base budgeting
3. Discuss non-budgetary control devices
4. Explain time-event network analysis as a major technique of planning and control
5. Understand the nature and applications of information technology
6. Recognize the importance of computers in handling information
7. Explain the opportunities as well as challenges created by the new information technology
8. Discuss the digital economy as well as developments in e-commerce and m-commerce
9. Understand customer relationship management

Although the basic nature and purpose of management control does not change, a variety of tools and techniques have been used over the years to help managers control. As this chapter will show, all these techniques are, in the first instance, tools for planning. They illustrate the fundamental truth that the task of controls is to make plans succeed; naturally, in doing so, controls must reflect plans and planning must precede control.

THE BUDGET AS A CONTROL DEVICE

A widely used device for managerial control is the budget.* Indeed, it has sometimes been assumed that budgeting is *the* device for accomplishing control. However, many non-budgetary devices are also essential.

The Concept of Budgeting[1]

Budgeting is the formulation of plans for a given future period in numerical terms. As such, budgets are statements of anticipated results, either in financial terms—as in revenue and expense as well as capital budgets—or in nonfinancial terms—as in budgets of direct labor hours, materials, physical sales volume, or units of production. It has sometimes been said that, for example, financial budgets represent the "dollarizing" of plans.

Budgeting The formulation of plans for a given future period in numerical terms.

Entrepreneurial Perspective

In New Ventures, Cash is King

While well-established businesses closely budget, track, and report numerous financial measures of their business operations, entrepreneurs that lead new ventures are more focused on their cash flow. This is because in a new venture, cash is usually limited and the planning of cash outlays and receipts is essential to the venture's survival. Issues such as collection of customer receipts, negotiation of extended payment terms to suppliers, and establishing lines of credit with lenders can make or break a new enterprise. Controlling the flow of cash in financing, operations, and investment is always on the entrepreneur's mind as she/he plots her company's strategy for growth in the short and long term.

We asked a leading Silicon Valley venture capitalist, Elton Sherwin of Ridgewood Capital, how he controls the firms in his portfolio. Mr. Sherwin indicated that he uses the budget to control the companies in his portfolio. Specifically, he asks three questions: "1. Have they raised enough money? 2. Are they spending the right amount of money? 3. Are they spending money on the right things?"

Dangers in Budgeting

Budgets are used for planning and control. Unfortunately, some budgetary control programs are so complete and detailed that they become cumbersome, meaningless, and unduly expensive. In addition, budgetary control may be used for the wrong reasons.

How often have you heard managers say "This is a good idea, but it's not in my budget"? Budgets often control the wrong things. They measure inputs but ignore outputs such as product quality and customer satisfaction. These items are difficult to measure, yet they may be the key to success or failure of the business. Managers may make unwise decisions to meet the budget, especially if incentive pay is given for staying within the budget. They may not invest in research and development, make capital investment for productivity, or invest in activities that will eventually result in greater market share because these investments do not show immediate results. Some of these items should be included in the long-range plan rather than in the one-year budget. Real savings may come from more efficient machines, new products, or other creative ideas, not from adhering to the budget.

Zero-Base Budgeting

One type of budgeting is **zero-base budgeting**. The idea behind this technique is to divide enterprise programs into "packages" composed of goals, activities, and needed resources, and then to calculate the costs for each package from the ground up. By starting the budget of each package from base zero, budgeters calculate costs afresh for each budget period; thus, they avoid the common tendency in budgeting of looking only at changes from a previous period.

Zero-base budgeting Dividing enterprise programs into packages composed of goals, activities, and needed resources, and then calculating the costs for each package from base zero.

This technique has generally been applied to so-called support areas rather than to actual production areas, on the assumption that there is room for discretion in expenditures for most programs in areas such as marketing, research and development, personnel, planning, and finance. The various programs thought to be desirable are costed and reviewed in terms of their benefits to the enterprise, and are then ranked in accordance with those benefits and selected on the basis of which package will yield the benefit desired.

The principal advantage of this technique is, of course, the fact that it forces managers to plan each program package afresh. As managers do so, they review established programs and their costs in their entirety along with newer programs and their costs.

TRADITIONAL NON-BUDGETARY CONTROL DEVICES

Of course, there are many traditional control devices not connected with budgets, although some may be related to and used with budgetary controls. Among the more important are the use of statistical data of many aspects of the operation, special reports and analyses of specific areas, the operational audit and independent appraisal by a staff of internal or external auditors, and personal observation such as managing by walking around.

TIME-EVENT NETWORK ANALYSES

Another planning and control technique is the time-event network analysis called the program evaluation and review technique (PERT).

Before the development of PERT, there were other techniques designed to assess how the parts of a program fit together during the passage of time and events.

Gantt Charts

The first of these techniques was the chart system developed by Henry L. Gantt early in the 20th century that culminated in the bar chart bearing his name (Figure 19-1). Although simple in concept, this chart, showing time relationships between the "events" of a production program, has been regarded as revolutionary in management. What Gantt recognized was that total program goals should be regarded as a series of interrelated supporting plans (or events) that people can comprehend and follow. The most important developments of control reflect this simple principle as well as basic principles of control such as picking out the more critical elements of a plan to watch carefully.

Gantt chart A bar chart that shows the time relationships between the "events" of a production program.

Milestone Budgeting

As a result of the development of further techniques from the principles of the Gantt chart and with better appreciation of the network nature of programs, "milepost" or "milestone" budgeting and PERT were devised, contributing to better planning and control of many projects and operations. Milepost or milestone budgeting breaks a project down into controllable pieces and then carefully follows them. Even relatively simple projects contain a network of supporting plans or projects. In this approach to control, milestones are defined as identifiable segments. When accomplishment of a given segment occurs, costs or other results can be determined.

Innovative Perspective

Planning and Control in Engineering

The best way to plan and control an engineering project is to break it down into a number of events such as completion of preliminary drawings, an experimental model, a package design, a packaged prototype, and a production design. Or a project might be broken down vertically into subprojects, (e.g., the design of a circuit, a motor, a driving mechanism, a sensing device, a signal feedback device, and similar components) that can be completed individually, in a time sequence so that components are ready when needed. Milestone budgeting allows a manager to see a complex program as a series of simpler parts and thus to maintain some control through knowing whether a program is succeeding or failing.

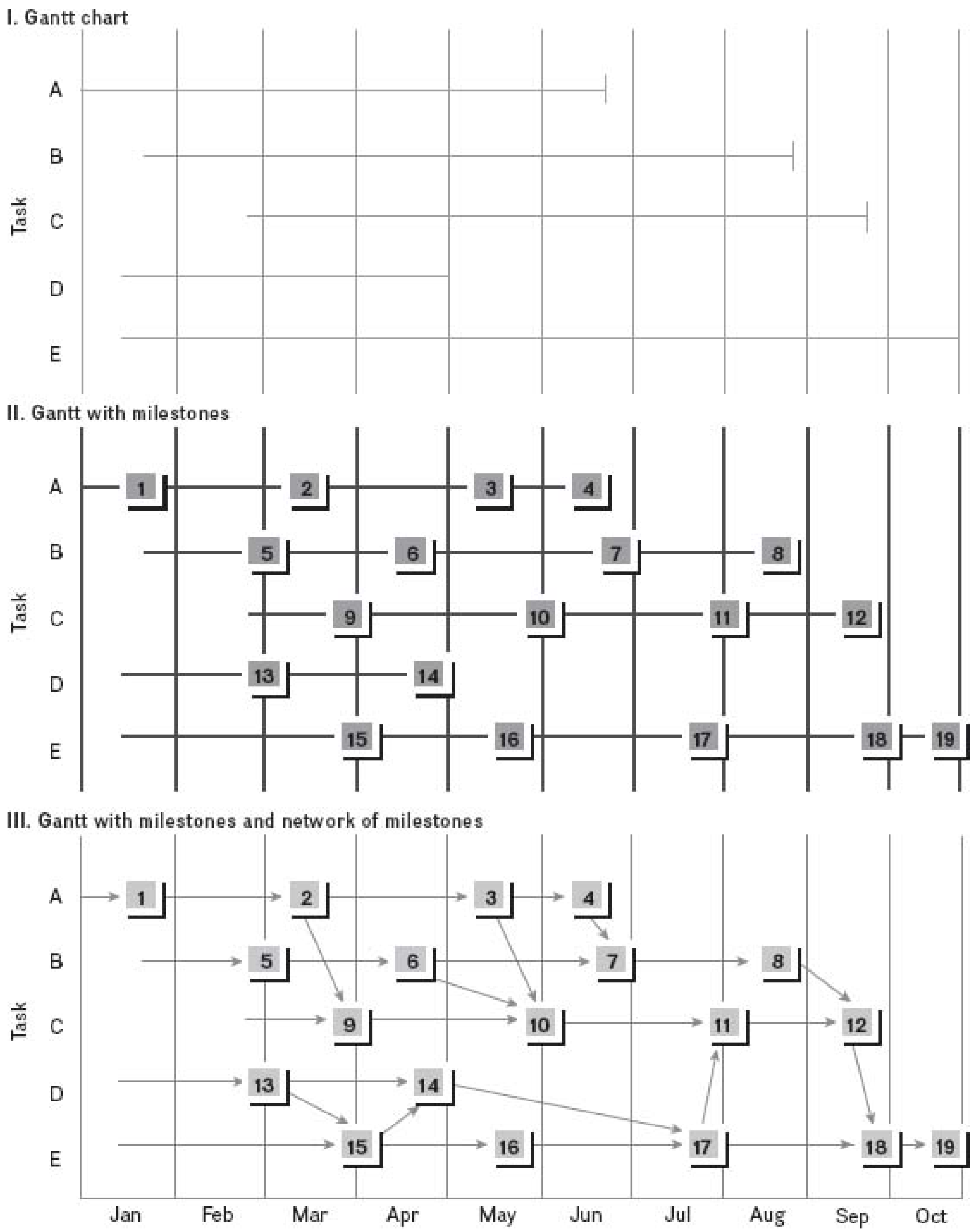


FIGURE 19-1 Transition from a Gantt chart to PERT

The Gantt chart is the scheduled time of accomplishing a task, such as procurement (task A), and the related schedules of doing other tasks, such as manufacture of parts (task B). When each of these tasks is broken down into milestones, such as the preparation of purchase specifications (task A-1), and when network relationships between the milestones of each task to those of other tasks are worked out, the result provides the basic elements of a PERT chart.

Program Evaluation and Review Technique*

Developed by the Special Projects Office of the U.S. Navy, PERT was first formally applied to the planning and control of the Polaris Weapon System in 1958 and worked well in expediting the completion of that program. For a number of years, it was so enthusiastically received by the armed services that it became virtually a required tool for major contractors and subcontractors in the armament and space industry. Although PERT is no longer much heard of in defense and space contracts, its fundamentals are still essential tools of planning and control. Moreover, in a host of nongovernmental applications, including construction, engineering and tooling projects, and even such simple tasks as the scheduling of activities to produce monthly financial reports, PERT or its companion network technique, the critical path method, may be used.

Major features of PERT

PERT is a time-event network analysis system in which the various events in a program or project are identified, with a planned time established for each. These events are placed in a network showing the relationships of each event to the other events. In a sense, PERT is a variation of milestone budgeting (Figure 19-1).

PERT A time-event network analysis system in which the various events in a program or project are identified, with a planned time established for each.

Figure 19-2 shows a PERT flowchart for the major assembly of an airplane. This example illustrates the basic nature of PERT. Each circle represents an *event—a* supporting plan whose completion can be measured at a given time. The circles are numbered in the order in which the events occur. Each arrow represents an *activity—the* time-consuming element of a program, the effort that must be made between events. *Activity time*, represented by the numbers beside the arrows, is the time required to accomplish an event.

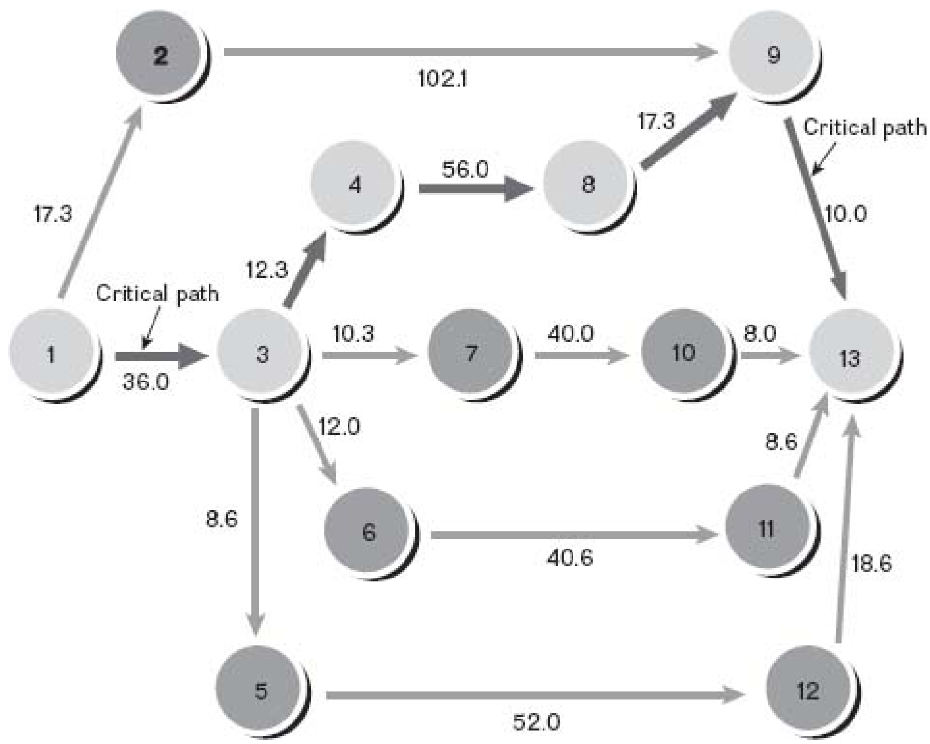


FIGURE 19-2 PERT flowchart

Events (major milestones of progress) in the major assembly of an airplane (shown with time in weeks): (1) order program go-ahead; (2) initiate engine procurement; (3) complete plans and specifications; (4) complete fuselage drawings; (5) submit GFAE* requirements; (6) award tail assembly subcontract; (7) award wings subcontract; (8) complete manufacture of fuselage; (9) complete assembly of fuselage engine; (10) receive wings from subcontractors; (11) receive tail assembly from subcontractors; (12) receive GFAE; (13) complete aircraft.

*GFAE: government-furnished airplane equipment.

In this example, only a single time is shown for each activity, but in the original PERT program there were three *time estimates:* “optimistic” time, an estimate of the time required if everything goes exceptionally well; “most likely” time, an estimate based on the time the project engineer really believes is necessary for the job; and “pessimistic” time, a time estimate based on the assumption that some logically conceivable bad luck, other than a major disaster, will be encountered. These estimates are often included in PERT because it is very difficult, in many engineering and development projects, to estimate time accurately. When several estimates are made, they are usually averaged, with special weight given to the most likely estimate; a single estimate is then used for calculations.

Critical path The sequence of events that takes the longest time and that has zero (or the least) slack time.

The next step is to compute the *critical path*, which is the sequence of events that takes the longest time and that has zero (or the least) slack time. In Figure 19-2, the critical path comprises events 1-3-4-8-9-13. Over this path, the activity time for this sequence of events is 131.6 weeks; if promised delivery is in 135 weeks, even this critical path will have been completed 3.4 weeks ahead of time. Some of the other paths are almost as long as the critical path. For example, the path 1-2-9-13 is 129.4 weeks. This is not unusual in PERT charts, and it is customary to identify several crucial paths in order of importance. Although the critical path has a way of changing as key events are delayed in other parts of the program, identifying it at the start makes possible close monitoring of this particular sequence of events to ensure that the whole program is on schedule.

Typical PERT analyses involve hundreds or thousands of events. Even though smaller PERT analyses can be done manually, estimates indicate that when more than 200-300 events are involved, it is virtually impossible to handle the calculations without a computer.

Strengths and weaknesses of PERT

There are five important advantages of PERT. First, it forces managers to plan because it is impossible to make a time-event analysis without planning and seeing how the pieces fit together. Second, it forces planning all the way down the line because each subordinate manager must plan the event for which he or she is responsible. Third, it concentrates attention on critical elements that may need correction. Fourth, it makes possible a kind of forward-looking control; a delay will affect succeeding events and possibly the whole project, unless the manager can make up the time by shortening the time allocated to some action in the future. Fifth, the network system with its subsystems enables managers to aim reports and pressure for action at the right spot and level in the organization structure at the right time.

PERT also has certain limitations. Because of the importance of activity time to its operation, the technique is not useful when a program is nebulous and no reasonable “guesstimates” of schedule can be made. Even in this case, however, insurance can be “bought” by such practices as putting two or more groups of people to work on an event when costs permit. A major disadvantage of PERT is its emphasis on time only, not on costs. While this focus is suitable for programs in which time is of the essence or in which, as so often is the case, time and costs have a close, direct relationship, the tool is more useful when considerations other than time are introduced into the analysis. (There is, however, another program called PERT/cost that does consider costs.)

INFORMATION TECHNOLOGY[2]

The developments in information technology greatly facilitate organizational control at a relatively low cost. The systems model of management (Chapter 1) shows that communication is needed for carrying out managerial functions and for linking the organization with its external environment. Communication and the management information system (MIS) are the linkage that makes managing possible.

At the outset, one has to realize the distinction between data and information. *Data* are the raw facts that may not be very useful until they become *information*, that is, after they are processed and become meaningful and understandable by the receiver (see also the communication model in Chapter 17). While this applies to interpersonal communication, it is also true for information technology.

Information technology encompasses a variety of technologies, including various kinds of hardware (e.g., computers, printers), software (e.g., operating systems, word or data processing), and computing and communication technologies (e.g., telecommunication, database management). In fact, new technologies are rapidly developing, such as 4G, the fourth generation of wireless technology, expanding and enhancing the capabilities of information technology. Even before 4G was widely implemented, the fifth-generation (5G) technology developed.

Information technology has promoted the development of MIS. The definition of the term **MIS** varies. It is defined here as a formal system of gathering, integrating, comparing, analyzing, and dispersing information internal and external to the enterprise in a timely, effective, and efficient manner to support managers in performing their jobs. MIS has to be tailored to specific needs and may include routine information such as monthly reports; information that points out exceptions, especially at critical points; and information necessary to predict the future.

Management information system A formal system of gathering, processing, and dispersing information internal and external to the enterprise in a timely, effective, and efficient manner to support managers in their jobs.

Electronic equipment permits fast and economical processing of huge amounts of data. The computer can, with proper programming, process data toward logical conclusions, classify them, and make them readily available for use. As noted earlier, data do not become information until they are processed into a usable form that informs.

Expansion of Basic Data

The focus of attention on management information, coupled with its improved processing, has led to the reduction of long-known limitations. Managers have recognized for years that traditional accounting information, aimed at the calculation of profits, has been of limited value for control. Yet, in many companies, this has been virtually the only regularly collected and analyzed type of data. Managers need all kinds of non-accounting information about the external environment, such as social, economic, political, and technical developments. In addition, they need non-accounting information on internal operations. The information should be qualitative as well as quantitative.

While not nearly enough progress has been made in meeting these requirements, the computer, plus operations research, has led to an enormous expansion of available managerial information. One sees this especially in relation to data on marketing, competition, production and distribution, product costs, technological change and development, labor productivity, and goal accomplishment. When readers of *The Economist* were asked what kind of technology would influence economic activity, the vast majority listed information technology.[3]

Information Indigestion and Intelligence Services

Managers who have experienced the impact of better and faster data processing are justly concerned about the danger of "information indigestion." With their appetite for figures whetted, the data originators and processors are turning out material at an almost frightening rate. Managers are complaining that they are being buried under printouts, reports, projections, and forecasts that they do not have time to read or cannot understand or which do not fill their particular needs.

One attempt at solving the problem of information overload is the establishment of intelligence services and the development of a new profession of intelligence experts. The service is provided by specialists who know (or find out) what information managers need and who know how to digest and interpret such information for managerial use. Some companies have established organizational units under such names as "administrative services" or "management analyses and services" for making information understandable and useful.

Managing by the Numbers[4]

Since its early days of the development of managerial thought, attempts have been made to numberize managing. Frederick Taylor, the father of scientific management, aimed at improving productivity and efficiency (Chapter 1). Similarly, operations management focused on the activities necessary for producing goods and services (Chapter 20). Various tools were used to quantify activities and tasks. Edward Deming, the quality guru, used statistical tools to improve quality (Chapter 1). More recently, the Six Sigma tool (see GE's Jack Welch in Chapter 13) focused on quality and customer satisfaction. More recently, attempts are made to model workers in large organizations such as IBM by using concepts such as "numerati." The idea is to build mathematical models of people in a large organization.

Modeling organization people may be illustrated by a project using numerati concepts in a worldwide organization such as IBM. Thus, the job may be described in numerical terms, and so would be the skills needed. People may be drawn from different organizational units located around the world. The budget would also be stated in numbers. To find suitable people, numerical profiles can be searched in a huge data base. For this complex project, concepts such as described in the book *The Numerati* authored by Stephen Baker may be employed. The attempt is to quantify human variables through the uses of very large data bases by combining factors to achieve productivity and efficiency. These data bases may consist of employees' emails, cell phone conversations, electronic calendars, and computer messages. These bits of data may also identify informal networks.

But this approach must be accompanied by words of caution: People may resist being treated as numbers. They may feel that their privacy has been violated and they want to be treated as dignified human beings, not as commodities. The approach may recall the negative aspects of industrial engineering and companies may be perceived as the BIG BROTHER.

As pointed out in the discussion on the management theory jungle (Chapter 1), numerical approaches to management such as the mathematical or "management science approach" or the reengineering or total quality approaches made great contributions to the development of management thought, but still many human variables cannot be quantified. The authors of this book as well as most management textbook authors recognize that the best approach is to organize management knowledge according to the managerial functions of planning, organizing, staffing, leading, and controlling—the framework of this book.

OPPORTUNITIES AND CHALLENGES CREATED BY INFORMATION TECHNOLOGY

Preventing the unauthorized use of information is just one of many challenges created by information technology. Other challenges as well as opportunities brought by information technology include analytics in managing, speech recognition devices, telecommuting, computer networks, the Internet, and other topics.

overcoming resistance to the use of computers, adapting speech recognition devices, telecommuting, installing computer networks, and using the Internet.

Analytics in Managing[5]

In its simplest term, analytics is the science of analysis. Analytics uses computer technology, statistics, and operations research to solve business and other problems. Business may use statistical data and quantitative analysis to arrive at decisions. Data is raw material, but to be really useful, data needs to be converted to information that informs people.

Analytics, for example, may be applied to portfolio analysis used by banks to scrutinize accounts in terms of value, risk, and other factors. A bank loan may be more risky in certain geographic locations than in others.

Innovation through Analytics

The wide application of the Internet by organizations to collect and manage data has created a sea of information, much of which has not been effectively analyzed or leveraged. Analytics is a rising field in which sophisticated statistical algorithms are used to analyze the mountains of data available in order to help organizations improve their customer service and operate more efficiently. In a recent *Harvard Business Review* article, Thomas Davenport argues that some organizations are competing on analytics.[6] Davenport identified 11 organizations that he classified as full-bore analytics competitors, as analytics was key to their overall enterprise strategy. Firms such as Amazon, Marriott, and UPS leverage a company-wide focus on the collection, analysis, and application of customer and operational information to improve how they do business in terms of better customer service to drive additional revenues or to cut operations costs out of their business model. He argues for executive support for this enterprise approach in order to build a company culture that accepts and leverages analytics to improve their business processes.

Analytics is a rising field in which sophisticated statistical algorithms are used to analyze the mountain of data available in order to help organizations improve their customer service and operate more efficiently.

The findings from the application of analytics to organizational data also may lead to innovation in how the customer experience is improved through more customized products and services. While the innovation process may begin with observing customer behavior, the rigorous analysis of customer data will help to confirm optimal strategies to enhance the customer experience with better crafted products and services and pricing that increase customer retention and profitable revenue growth.

Computer Networks

The widespread use of stand-alone computers often results in duplication of efforts. The database in the mainframe or the minicomputer, for example, may not be accessible from the desktop computer. Therefore, computer networks have been developed that link workstations with each other, with larger computers, and with peripheral equipment. The interconnection allows users at several workstations to communicate with each other as well as to access other computers. Moreover, workstations can be connected to costly hardware that may be underutilized by a single user. For example, laser printers or tape backup units for saving data files can be shared.

There are many other applications of computer networks such as e-mail and the collection, dissemination, and exchange of data, information, and knowledge. Although computer networking is still in its infancy, new technological developments are rapidly changing the system of information handling.

International Perspective

Cisco's Approach to "Convergence"[7]

Technology undergoes rapid changes as illustrated by convergence, meaning integrating computers, entertainment systems, and the Internet. Many players are in that market ranging from Apple, to Hewlett-Packard to Microsoft, to Sony, and to Cisco. Cisco's competitive strengths are in networking gear, for example, with the Linksys product. To focus on the customer, Cisco introduced the Linksys Wireless Home Audio multiroom system. Other Cisco brands include large screen TV set up boxes by Scientific Atlanta and Flip by Pure Digital producing very simple video cameras. By combining Cisco's strengths in networking, the company hopes to take advantage of the current networking trend.

The Internet

Internet is the largest network of computers. Actually, it is a network of networks which range from large formal networks at AT&T to informal ones that can be accessed by anyone. The Internet started at the U.S. Department of Defense in 1969, with the purpose of linking it with military research contractors and universities conducting research for the military. Now, governments, universities, companies, and anyone with a computer and a modem can use the Internet. Private persons often use online service such as Google, Yahoo, and other companies to send and receive e-mail, "chat" with other people anywhere in the world, and retrieve information from online libraries, newspapers, and other sources. Anyone with Internet connection can check the weather forecast or sports results. Internet is also an excellent tool for conducting company research, preparing a term paper, and doing business such as buying products from Yahoo.[8] Another common use of the Internet is for discussion on bulletin boards of any topics, ranging from computer assistance to hobbies and sports events. Building online communities is another common use of the Internet.[9]

Other Types of Networks

Besides the Internet, there are other types of networks. The **intranet** is a network that applies computer and Internet technologies to an organization or selected groups within the organization. Similarly, the **extranet** also uses computer and Internet technologies, but it connects selected users inside as well as outside the organization. For example, a purchasing agent may be linked to certain vendors for conducting selling and buying transactions.

Groupware

Networks facilitate the management process and other business activities. A group of people on a network can collaborate over long distances at the same time using **groupware**. This software allows a document to be shown to several users on their monitors and for them to comment or make changes to the document. Thus, people who may be located in different parts of the world can collaborate on the same task simultaneously.

Groupware Software that enables a group of people on a network to collaborate over long distances at the same time.

Freeware: The Search for a Business Model[10]

There is no general agreement on the **freeware** term. It usually pertains to a fully functional software with no cost to the user. However, restrictions may be imposed on the user-only for personal use and not for commercial purposes. Note that freeware is different from shareware, which requires the user to pay after an initial period or to upgrade to extra functionality.

Freeware usually pertains to a fully functional software with no cost to the user

Today, much information that previously cost money can now be obtained free. For example, Wikipedia is a web-based free encyclopedia based on the collaboration of contributors. Many websites replace agents or provide access to companies. Trading websites replaced agents, Turbo Tax, the accounting software, replaced accountants, and the search engines replaced travel agents. There are also other free websites. For example, on the iPhone or iPod Touch, one can listen to music for free on Pandora; on Hulu, one can see movies for free; and Skype allows free phoning. YouTube is a video sharing website that is used by individuals and organizations. For example, in 2009 the Vatican entered the technology world with its own website on YouTube (http://de.youtube.com/vatican?hl=en). The program is available in several languages. So, what is the business model for those companies who provide free access to their products or services?

he traditional model was as follows: First, it started with an idea, and then money was raised to bring the idea to the market. If successful, additional money was obtained to expand the business, and finally a big company bought the entrepreneurial product or service. However, during the financial global meltdown in 2008, it became difficult to raise money and companies were searching for new business models. The popular Facebook has many customers, but it was also ineffective in raising advertising money. The widely used YouTube was also struggling. One may also be wondering how Microsoft could compete in markets where word processors and spreadsheets are available for free. Microsoft created a web version of its business software and made it available for free to small and young enterprises that are less than three years old and have revenues of less than $1 million. The hope was that as the firms grow, they will buy and use Microsoft's programs.

While users of software benefit from the freebees, companies are struggling to find a profitable business model.

Information Security[11]

With the growing use of information technology, the concern for security also increases. Not only businesses but also individuals are vulnerable to computer break-ins or interception or alteration of electronic transmissions. A hacker (someone who breaks into a computer) may alter or even destroy bank or other records. Protection of computers can be afforded through encryption, whereby a secret code is used to scramble the message so that it is not readable. The use of a firewall also provides some protection. Firewalls come as software programs (e.g., Norton Personal Firewall or Zone Alarm Pro) or as hardware such as the Ethernet router. A great variety of antivirus programs protect against computer viruses or worms, which may cause extensive damage to computers and networks. Of additional concern are the people who work with information systems in organizations. They need to be responsible, be trained, and be held accountable for their behavior with severe penalties attached for breaching security. Individuals and companies also should protect data by regularly making backup copies and storing them in a secure place, perhaps outside their place of work.

THE DIGITAL ECONOMY, E-COMMERCE, AND M-COMMERCE

Alan Greenspan, chairman of the U.S. Federal Reserve Board, one of the most influential persons in the world of finance, stated in 1999: “The newest innovations, which we label information technology, have begun to alter the manner in which we do business and create value, often in ways not readily foreseeable even five years ago.” **E-commerce**-business transactions on the Web-is changing the way we do business.

The Emerging Digital Economy [12]

Information technology affects most aspects of business and personal life. While computer power is growing rapidly, its price is dropping dramatically. The Ford Taurus car of today has more computing power than the million-dollar mainframe computer in the Apollo space program. Information technology raises productivity not only in the production and distribution of goods, but also in services. Productivity improvement, in turn, results in higher living standards. This new technology impact is global, increasing competition and innovation. The ability to easily process vast amounts of data in research and development has shortened the development time of new products, speeding up their introduction to the market.[13]

One of the major impacts of the Internet is on the way business is conducted. Relationships with suppliers and customers are changing dramatically. Telecommunication and information technology have contributed greatly to the longest peacetime economic expansion in the United States. The investment in those technologies finally paid out. Today, we have e-everything: e-mail, e-commerce, e-business, e-cash (use of smart cards and digital cash), e-travel, e-finance, e-loan, e-music, e-books, e-stamps, and many more.

The economic gains of e-commerce come from the lower costs of online companies (when compared to brick and mortar firms with physical stores), reduction in distribution costs, and the elimination of intermediaries. Buyers benefit from being able to compare prices and select the best choice from the comfort of their home or office. How can the brick and mortar businesses with their higher costs compete with e-businesses? Stores like Kmart and Walmart now also transact their business through the Web, becoming "clicks and mortar" or "clicks and bricks" companies. This means you can make purchases with a click of the mouse or by physically visiting their stores.

The Internet facilitates four kinds of transactions (Figure 19-3). These transactions are:

	Consumer	Business
Consumer	C2C eBay (auction)	C2B Priceline ("you name the price" travel offers)
Business	B2C Amazon (books, etc.) Travelocity (travel)	B2B Ford, General Motors, DailmerChrysler (manufacturers to suppliers)

FIGURE 19-3 Matrix for e-commerce

Adapted from "E-Commerce Survey," *The Economist*, February 26, 2000, Insert p. 11.

1. *Business to consumer (B2C).* Ordering books or other items from Amazon.com or buying a computer from Dell online are examples of B2C transactions. The Safeway grocery store delivers Web-ordered groceries to customers' home.
2. *Consumer to business (C2B).* An example of C2B transaction is the bidding for airline tickets by would-be flyers through Priceline.

com.

3. *Consumer to consumer (C2C).* The eBay auction website offers C2C transactions, through which individuals can sell items.
4. *Business to business (B2B)*. B2B transactions are probably going to have the greatest impact on the economy. For example, the two largest car manufacturers, General Motors (GM) and Ford, plan to transfer all purchasing to the Web within the next few years. GM claims that its website will be the world's largest virtual marketplace. So, what could this mean to the consumer in the future? Ford and GM may build cars to order for delivery in just a few days, just like you order today customized computers from Dell.[14] It is possible that GM and Ford will become virtual companies with expertise in car design and brand marketing.

Covisint, the joint venture between Ford, GM, DaimlerChrysler, and Renault/Nissan, could become the exchange where suppliers trade with each other.[15] There is concern that this may lead to monopolistic practices, which may prompt the U.S. Justice Department to investigate.

www.covisint.com

In the airline business, another battle takes shape. The five largest U.S. airlines-Continental, Delta, Northwest, United, and American Airlines-have a common website called Orbitz.com. This site collides with the traditional travel agents as well as with online travel agents such as Travelocity and Expedia (a Microsoft company) by trying to undercut their prices.[16]

www.orbitz.com

Three-quarters of all e-commerce is conducted in the United States, from which 90 percent of all commercial websites originated.[17] However, the country with the most Internet hosts per inhabitant is Finland; the United States ranks second. Among the world's most admired companies identified by *Fortune* magazine, many are in the information technology business.[18] Here are some familiar names: Microsoft, Dell, Cisco Systems, Intel, Nokia, and Lucent Technologies. However, in 2002, some of the so-called dot-com companies fell out of favor with investors. Outside the information technology industry, many firms use sophisticated technologies to gain a competitive advantage, including Walmart, General Electric, and Ford.

www.nokia.com
www.lucent.com

M-Commerce and Wireless Communications

While e-commerce is changing the way business is conducted, wireless communications and m-commerce (mobile commerce) are emerging to take it further. Japan and Europe have the leading edge in this area. However, Europe lags behind Japan, even though m-commerce and wireless applications are expected to increase greatly in Europe in the coming years. Companies such as BellSouth, Motorola, Qualcomm, Ericsson, Lucent, Nokia, and Microsoft are trying to exploit opportunities in wireless communications. Wireless applications may include business transactions, provision of financial and travel information, and community sites for chatting or sending e-postcards.

www.palm.com

The developments in e-business, e-commerce, and m-commerce provide great opportunities for enterprises. Managers need to observe the trends and develop strategies to take advantage of the new technologies.

Customer Relationship Management[19]

Customers are the reason for an organization's existence. Therefore, to be successful, enterprises need to focus on the needs of their customers. Customer relationship management (CRM) addresses this need. Companies are also faced with the need for a system that reduces costs and coordinates sales and marketing and service efforts to provide a positive experience for their customers such as handling complaints. It is through the CRM system that data is collected on customers in a centralized data base.

CRM means promoting interactions between the customer and the organization by collecting, analyzing, and using the information to better serve the client.

There is no agreed upon definition of CRM. In broad terms, CRM means promoting interactions between the customer and the organization by collecting, analyzing, and using the information to better serve the client. CRM is not new, but it has gone through various overlapping stages. The beginning of CRM probably can be traced to Siebel Systems Inc. in 1993. In the 1990s, CRM approaches were accompanied by a number of failures. At stage 1, the emphasis was on marketing processes; stage 2 focused on customer relationships; stage 3 utilized the Internet for reevaluating the processes, redesigning systems, and self-service. It is in stage 4 that more attention is given to the specific needs of the customers.

Professor Raab and his colleagues view CRM as being based on three pillars: technology, organization, and personnel which are the foundation of customer orientation, customer satisfaction, customer retention, and customer profitability.[20] Another way of looking at the process of CRM is that an effective use of personnel, technology, and organization lead to customer orientation, product quality, customer satisfaction, customer retention, customer value, and eventually to company success.

CRM is used by many organizations. At Marriott, for example, it is used to boost sales, manage the Marriott Rewards program, and for the Broadsystem that expands the company's marketing program. The travel industry has extensively used programs for managing the relationships with its customers. For example, CRM has been employed by companies such as Southwest Airlines, JetBlue, Best Western, British Airways, Delta, American Airlines, Alaska Airlines, Walt Disney, Travelocity, and Expedia.

There are also concerns and limitation of CRM. For one, large investments are required for building and maintaining the system. Hardware and software are required and so is the costly training of the system's users. Customers are also concerned about their privacy and that the collected information could be misused.

Clearly, CRM is not a cure-all for solving all the problems in the relationships between an organization and its customers. However, certain steps can help make the system succeed. Careful planning is certainly necessary. Also, since the installation of the systems requires organizational changes, people need to be prepared for the cultural adjustment. In many cases, it might not be wise to begin with a costly comprehensive system. Instead, a company may start with a pilot program and incrementally enlarge the system. At any rate, for companies to remain competitive or better to achieve a competitive edge, they may utilize CRM for systematically staying in contact with their customers who are the reason for the organization's success.

SUMMARY

A variety of tools and techniques have been used to help managers control. These techniques are generally, in the first instance, tools for planning, and they illustrate the fact that controls must reflect plans. Some of these tools have long been used by managers, others are refinements. One of the older control devices is the budget. Budgeting is the formulation of plans for a given future period in numerical terms. There are also dangers in budgeting. Budgeting is made much more precise by zero- base budgeting, in which programs are divided into "packages." The costs for each package are calculated from a base of zero. In order to make budgetary control effective in practice, managers must always realize that budgets are tools and not intended to replace managing. Among the traditional non-budgetary control devices are statistical data and their analyses, special reports and analyses, the operational audit, and personal observation.

One of the techniques of planning and control is the time-event network analysis. The PERT is a refinement of the original Gantt chart, which was designed to show, in bar chart form, the various tasks that must be done and when, in order to accomplish a program. PERT is also a refinement of milestone budgeting, in which the tasks that have to be done are broken down into identifiable and controllable pieces called milestones. When milestones are connected to form a network and the time required to complete each milestone is identified, the result is a PERT/time-event network. Using the sequences of events and the times required for them, one can determine the critical path, which is the sequence that takes the longest time and has zero (or the least) slack time. Despite the advantages of PERT, there are also weaknesses.

The MIS is a formal system of gathering, integrating, comparing, analyzing, and dispersing information internal and external to the enterprise in a timely, effective, and efficient manner to support managers in their work. MIS allows the expansion of data, but also can lead to information indigestion. Still, the new technologies facilitate managing by the numbers, using Twitter, applying analytics to managing, using speech recognition devices, facilitating telecommuting, creating computer networks, and using the Internet effectively. Individuals benefit from freeware, but this approach is still searching for a profitable business model. Clearly, information technology not only changed businesses and private transactions, but it also increased security concerns.

The digital economy changed, if not revolutionized, e-commerce and m-commerce (mobile commerce). It changed, for example, the relationships between businesses and between businesses and the consumers. It even leads to consumer to consumer relationships, as illustrated by eBay (Figure 19.3). The interaction between businesses and customers is further enhanced by CRM.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Budgeting
- Types of budgets
- Budgeting problems
- Zero-base budgeting
- Non-budgetary control devices
- Gantt chart
- Milestone budgeting
- Program evaluation and review technique (PERT), critical path

- Information technology
- Management information system
- Managing by the numbers
- Analytics
- Speech recognition devices
- Telecommuting
- Computer networks
- Internet
- Other types of networks
- Freeware
- Information security
- Emerging digital economy
- E-commerce: B2C, C2B, C2C, B2B
- M-commerce and wireless communications
- Customer relationship management

FOR DISCUSSION

1. The techniques of control appear to be as much techniques of planning as they are of control. In what ways is this true? Why would you expect it to be so?
2. If you were going to institute a program of special control reports and analyses for a top manager, how would you go about it?
3. PERT is a management invention that takes basic principles and knowledge and, through design to get a desired result, comes up with a useful technique of planning and control. Analyze PERT with this in mind.
4. Give examples of how information technology has affected you.
5. Do you use Twitter? If you do, how do you use it? What are the advantages/ disadvantages in using Twitter?
6. How will e-commerce affect you in the future on buying or selling of goods and services?

7. How would you feel about your personal data being stored in the CRM system of the organization with which you are doing business?

EXERCISE/ACTION STEPS

1. Prepare a budget for your studies at the university. What are the advantages in preparing a budget? What are some problems?
2. Select an organization that you know and show how it uses computers or conducts e-commerce.
3. Select a firm in which you have an interest in working for and conduct a balanced score card analysis from publicly available information. Given your analysis, do you believe the organization is on the road to continued success? What operational activities in organizational learning, internal processes, customer perception, and financial measures might you suggest that the organization pursue in order to obtain its strategic objective?
4. Identify two enterprise software applications that may help organizations better control their costs and operations. Describe them to the class and give examples of their use.

Innovation Case

Amazon.com-One of the Most Innovative Companies under the Leadership of Entrepreneur Jeff Bezos[21]

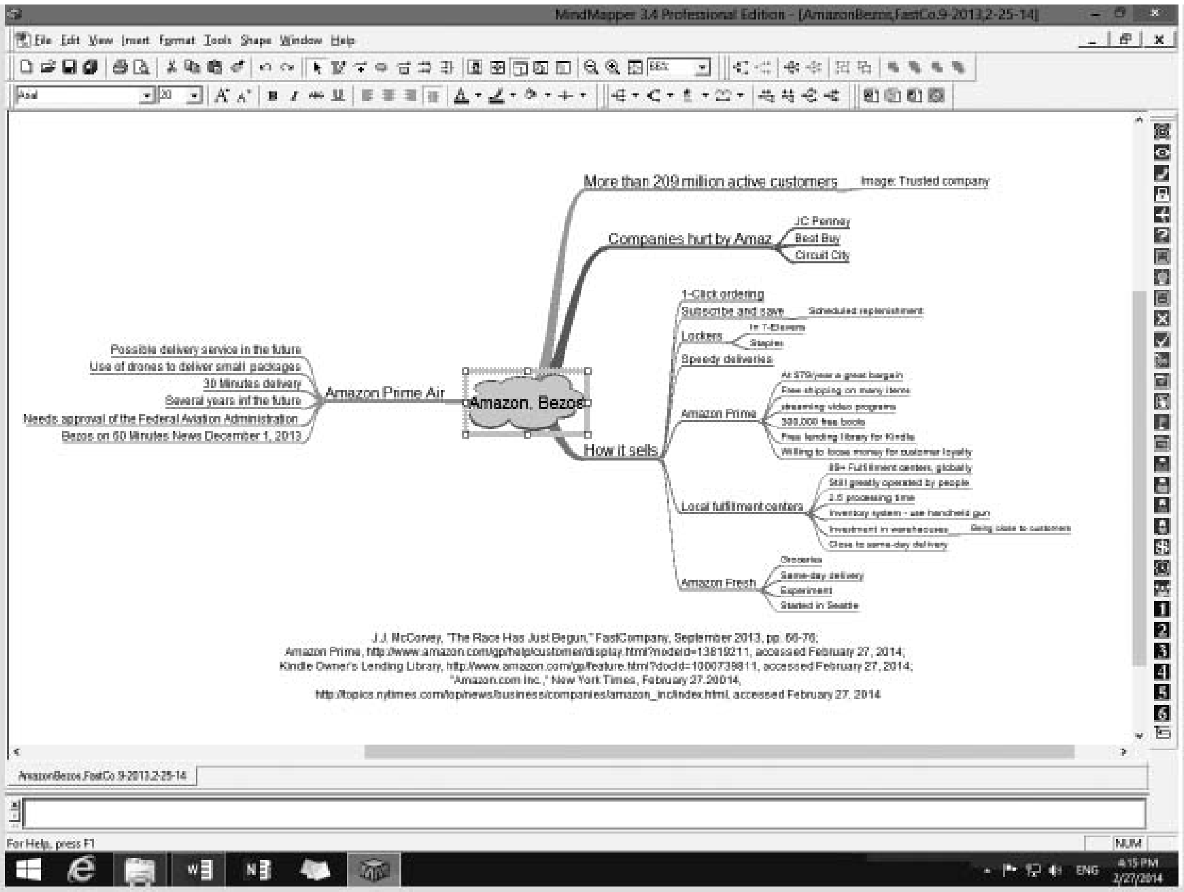
Amazon.com under the leadership of Jeff Bezos, an extraordinary entrepreneur, is one of the most innovative companies. The company started as an electronic bookseller, but now includes selling many products delivered around the world. The company with some 209 million customers is taking away business from established companies such as JC Penney, Best Buy, and Circuit City. Amazon's way of selling, however, is very different from those companies (although they also have some e-business activities).

Amazon's strength is speedy delivery through a network of local fulfillment centers with warehouses where products are stored. There are more than 89 fulfillment centers globally. Amazon invested heavily in warehouses in order to be closer to the customers. It usually takes 2.5 hours from the time an order is placed to the time it is processed. The inventory system uses some robotic features, but still relies extensively on people who use handheld guns for code reading. The recent acquisition of a robotic company may result in the wider use of automation.

For the customer, ordering is easy through the *1-click feature.* Also, customers can Subscribe and Save, which allows for scheduled replenishment of commonly used items. What is considered a bargain is the *Amazon Prime* feature that can be obtained for $79 a year (increased to $99 for new customers).* At any rate, Amazon Prime provides for two-day free shipping of many items. It also allows for free *Streaming Video* programs and more than 500,000 free books in the *Kindle's Owners' Lending Library*, which includes more than 100 books on the *New York Times* best-seller list. In all, if one takes full advantage of Amazon Prime, it is a bargain. Bezos is willing to lose some money on shipping and services in exchange for customer loyalty.

The company is also experimenting with *Amazon Fresh*, which is a same-day delivery service of groceries. This experiment started in Seattle in Washington State, where Amazon's headquarters are located, but is spreading to other cities as well. After an assessment of Amazon Fresh, the future of this innovation will be evaluated for further implementation.

In December 2013, during the popular "60 Minutes" TV program, Jeff Bezos introduced the idea of *Amazon Prime Air* which could become a possible delivery service of the future. Drones would be used to deliver small packages. However, this 30-minute delivery service for the future needs the approval of the Federal Aviation Administration.[22]



Amazon.com is certainly one of the most exciting companies and more innovations can be expected in the future.

Questions

1. Using the Internet, find out the status of the *Amazon Prime Air* development
2. Using the Internet, search for recent developments at Amazon.com
3. Using the Internet, identify the failures of Amazon's ventures. Why were some of the undertakings not successful?
4. Discuss the advantages and disadvantages of taking risks. What is your inclination for taking risks?

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* Primarily because of the negative implications of budgeting in the past, the more positive phrase *profit planning* is sometimes used, and the budget is then known as the *profit plan*.

* The technique was also separately developed as the critical path method by engineers at the Du Pont Company at virtually the same time. Only PERT is discussed here because the critical path method, although different in some respects, utilizes the same principles.

CHAPTER 20

Productivity, Operations Management, and Total Quality Management

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Identify the nature of productivity issues and suggest ways to improve effectiveness and efficiency
2. Describe production and operations management as an applied case of managerial planning and control
3. Understand the operations management system
4. Discuss the tools and techniques for improving productivity
5. Recognize the importance of quality, the nature of a variety of techniques for improving quality, and lean manufacturing
6. Distinguish between supply chain management and value chain management, although the terms are sometimes used interchangeably

In a real sense, this whole book is about the improvement of productivity. But this important topic will receive special attention in this chapter, with an emphasis on the microlevel of production and operations management.*

PRODUCTIVITY PROBLEMS AND MEASUREMENT

Undoubtedly, productivity is one of the major concerns of managers in the 21st century. This is a concern in many parts of the world. Even Japan, which is admired for productivity improvement, is now concerned about remaining competitive in the world market.

Productivity Problems

Productivity implies measurement, which in turn is an essential step in the control process. Although there is general agreement about the need for improving productivity, there is little consensus about the fundamental causes of the problem and what to do about them. The blame has been assigned to various factors. Some people place it on the greater proportion of less-skilled workers with respect to the total labor force, but others disagree. There are those who see the cutback in research and the emphasis on immediate results as the main culprit. Another reason given for the productivity dilemma is the growing affluence of people, which makes them less ambitious. Still others cite the breakdown in family structure, workers' attitudes, and government policies and regulations. Increasingly, attention shifts to management as the cause of the problem as well as the solution, which is the focus of this book.

Measurement of Productivity of Knowledge Workers

As defined in Chapter 1, **productivity** is the output-input ratio within a time period with due consideration for quality. This definition can be applied to the productivity of organizations, managers, staff personnel, and other workers. Measurement of skilled work is relatively easy, but it becomes more difficult for knowledge work. The difference between the two kinds of work is the relative use of knowledge and skills. Thus, a person on the production line would be considered a skilled worker, while the assistant to the manager with planning as his or her main function would be a knowledge worker. Managers, engineers, and programmers are knowledge workers, because the relative amount of their work does not consist of utilizing skills as would be the case for bricklayers, mechanics, and butchers. But the job title cannot be the sole guide for making distinctions. The owner of a gas station may schedule the day's tasks, determine priorities, and direct subordinates, but he or she may also change brakes, adjust the carburetor, or realign the front wheels on a car.

Productivity The output-input ratio within a time period with due consideration for quality.

It is clear that, in general, the productivity of the knowledge worker is more difficult to measure than that of the skilled worker. (Note also that worker productivity measurement is somewhat artificial because it often ignores the cost of capital.) One difficulty in measuring the productivity of knowledge workers is that some outputs are really activities that help achieve end results. Thus, the engineer contributes indirectly to the final product. Another difficulty is that knowledge workers often assist other organizational units. The advertising manager's efforts should improve sales, but it is hard to say for sure what the exact contribution is. Still another difficulty is that the quality of knowledge workers' outputs is often hard to measure. The effects of a strategic decision, for example, may not be evident for several years, and even then the success or failure of the new strategic direction may depend on many external forces beyond the control of the manager.

It is evident that productivity improvement is achieved by the good management practices advocated throughout this book. But the discussion will now turn to the specific area of production and operations management, where measurement is relatively easy and which consequently has been the focus of productivity improvement programs in the past.

PRODUCTION AND OPERATIONS MANAGEMENT: MANUFACTURING AND SERVICE

One of the major areas in any kind of enterprise, whether business, government, or others, is production and operations management. It is also the area where managing as a scientifically based art got its start. The contributions of management pioneers like Frederick Taylor, Henry Gantt, and Frank Gilbreth, to mention only a few, indicate that their interest was largely in improving productivity and manufacturing products most efficiently while still recognizing, as they did, the importance of the human factor as an indispensable input.

In the past, **production management** was the term used to refer to those activities necessary to manufacture products. However, in recent years, the area has been generally expanded to include activities such as purchasing, warehousing, transportation, and other operations, from the procurement of raw materials through various activities until a product is available to the buyer. The term **operations management** refers to activities necessary to produce and deliver a service as well as a physical product.

Production management deals with activities necessary to manufacture products.
Operations management deals with activities necessary to produce and deliver a service as well as a physical product.

There are of course other essential activities undertaken by a typical enterprise. These activities often include research and development, engineering, marketing and sales, accounting, and finance. This chapter deals only with what has come to be called operations management or production management or often, production and operations management. It should be pointed out that this is not the same thing as operational management theory. Operational management theory is the study of the practice (managing) which that theory or science is designed to underpin.

Service organizations do not produce a physical output but provide some service as an output. For instance, the input of students with limited knowledge, skills, and attitudes becomes enriched and transformed through attending lectures, doing case analyses, participating in exercises, and engaging in other activities that will result in the output of educated students, which is documented by a degree. Other examples of service providers are hospitals, doctors, consultants, airlines, restaurants, musicians, and the great variety of retail stores.

QUALITY MEASUREMENT IN THE INFORMATION AGE[1]

In the past, the concepts of quality were mostly applied to products such as cars or refrigerators. With the increase in service companies, quality concepts must also be applied in those firms. This means the measurement of expectations, experiences, and emotions. For example, how do customers feel waiting in line in a restaurant or at Disneyland rides, or waiting on the telephone for help?

Quality in the information age takes on new dimensions. Software package quality does not only include reliability, but also technical support services, compatibility, upgradability of the software, and the integration of the information infrastructure not only with the company, but also with its suppliers and customers. Walmart, for example, gains a competitive edge through supply chain management. Focusing on the quality of the information infrastructure is critical for company success in the new information age.

Entrepreneurial Perspective

Google Brings Quality Measures to the Advertising Industry

For many years, organizations of all types have dedicated major investments in branding and sales with traditional media (newspapers, radio, TV) without clearly knowing the impact of their advertising expenditures. For example, how will the advertiser know how many people actually read the advertisement it paid for in a local or national newspaper? The functionality of the internet (ability to track users' views and clicks on web advertisements) and Google's effective technology of tracking and placing paid advertisements has enabled organizations to know with much greater assurance the effectiveness and productivity of their advertisement expenditures. In the Google system, advertisers know exactly how many people viewed their advertisement and how many people clicked on an ad and thus visited their website. Additionally, in the Google model, advertisers pay only for the click-through and get the views of their ads for free. This service allows organizations to more productively allocate their limited advertising dollars. Further, it allows small firms establish a global reach with effective and inexpensive Internet media.

THE OPERATIONS MANAGEMENT SYSTEM

Operations management has to be seen as a system. Figure 20-1 gives an overview of the operations function. In the operations management model, the *inputs* include needs of customers, information, technology, management and labor, fixed assets, and variable assets that are relevant to the transformation process. Managers and workers use the information and physical factors to produce outputs. Some physical elements such as land, plant site, buildings, machines, and warehouses are relatively permanent. Other physical elements such as materials and supplies are consumed in the process of producing outputs. The *transformation process* incorporates planning, operating, and controlling the system. There are many tools and techniques available to facilitate the transformation process. The model also reflects a constant concern with *system improvement. Outputs* consist of products and services and may even be information, such as that provided by a consulting organization.

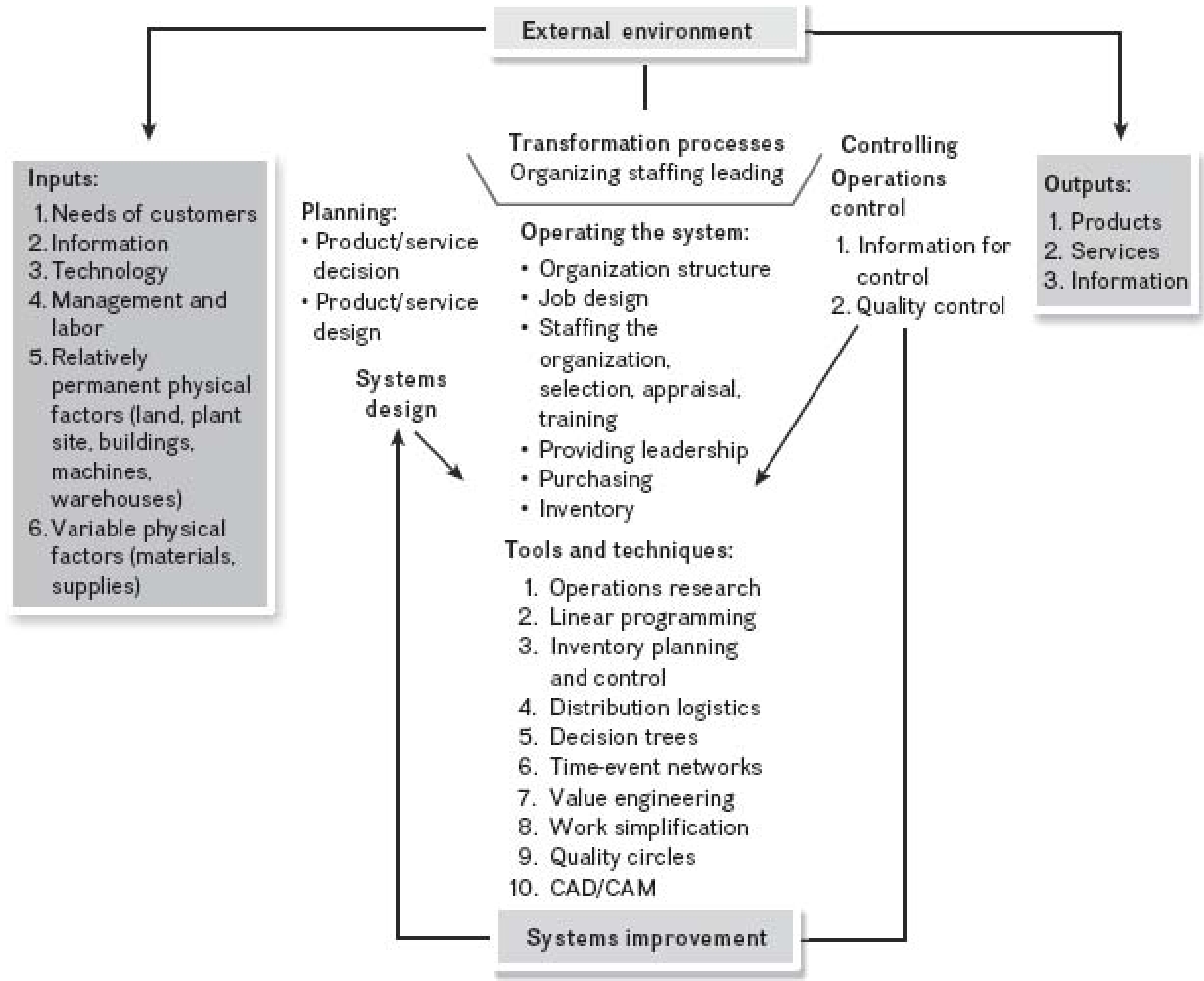

FIGURE 20-1 Operations management system

The last part of the model shows that operations are influenced by *external factors* such as safety regulations or fair labor practices. Since the external environment is discussed elsewhere in this book (especially in Chapter 2 and Part 2), it will not be expanded on here; the important point is that operations management must be an open system interacting with its surroundings.

The operations management model (Figure 20-1) serves as a framework for the discussions that follow. There is a close relationship between this model and the one introduced in Chapter 1 (Figure 1-6), since this operations model may be regarded as a subsystem of a total management system. Examples of operations systems with inputs, transformation (sometimes also called process), and outputs are presented in Table 20-1.

FIGURE 20-1 Examples of operations systems

Inputs	Transformation	Outputs
• Plant, factory machines, people, and materials	Assembling bicycles	Completed bicycles
• Students with limited knowledge, skills, and attitudes	Lectures, cases, experiential exercises, and term papers	Students with enhanced knowledge, skills, and attitudes
• Client problem	Consulting: data collection and analysis, evaluation of alternatives, selection of an alternative, and recommendation	Consultant's report recommending course of action

Planning Operations

The objectives, premises, and strategies of an enterprise (Part 2) determine the search for and the selection of a product or service as its output. In this discussion, the production of physical products is emphasized, but the concepts can also be applied to the provision of services. After an end product has been selected, the specifications are determined and the technological feasibility of producing it is considered. The design of an operations system requires decisions concerning the location of facilities, the process to be used, the quantity to be produced, and the quality of the product.

Building a Business Case

Before proceeding on an investment or operations decision, managers must often validate that decision by building a business case. A business case provides the reasoning for pursuing a particular course of action. It takes into account the opportunity or problem being addressed, assesses the costs and benefits of various alternative courses of action, and makes a case to pursue one of those alternatives. For example, the business case may help answer which of three possible software packages to adapt to a firm's operations or which of several potential markets to expand into.

Typically, a business case begins with a clear articulation of the opportunity along with the objectives of the potential course of action. Then, alternative courses of action are identified and data is gathered on each of the likely alternatives that leads to an analysis of these alternatives against the objectives and measures of success. Finally, a choice is made that takes into account relevant risks and a plan is created to implement the chosen course of action. The business case may be communicated in a written document and/or presentation.[2]

Special interests in a product decision

One of the basic decisions an enterprise makes is selecting a product or products it intends to produce and market. This requires gathering product ideas that will satisfy the needs of customers and contribute to the goals of the enterprise while being consistent with the strategy of the firm. In a product decision, the various interests of functional managers must be considered. The production manager may want a product that can be produced without difficulty, at a reasonable cost, and with long production runs. Engineers may share many of these aims, but they are often looking for engineering sophistication rather than ways of producing the product at a reasonable cost.

The sales or marketing manager's interest is likely to be the needs of customers, and his or her aim is to increase the sales of products through ready availability and competitive prices. Moreover, the sales manager may want to offer a broad product line without considering engineering, production, transportation, and warehousing costs and the problems involved. The finance manager's concerns are likely to be costs and profits, high return on investment, and low financial risks. The divergent interests of these functionally oriented managers and professionals influence what products will be produced and marketed, but it is the general manager who has to integrate the various interests and balance revenues with costs, profits with risks, and long-term with short-term growth.

Product and production design[3]

The design of a product and its production requires a number of activities. The following steps have often been suggested:

1. Create product ideas by examining consumer needs and screening various alternatives.
2. Select the product on the basis of various considerations, including data from market and economic analyses, and make a general feasibility study.
3. Prepare a preliminary design by evaluating various alternatives, taking into consideration reliability, quality, and maintenance requirements.
4. Reach a final decision by developing, testing, and simulating the processes to see if they work.
5. Decide whether the enterprise's current facilities are adequate or if new or modified facilities are required.
6. Select the process for producing the product and consider the technology and the methods available.
7. After the product is designed, prepare the layout of the facilities to be used, plan the system of production, and schedule the various tasks that must be done.

Systems design

In producing a product, several basic kinds of production layouts can be considered. One alternative is to arrange the layout according to the sequence of *production or assembly* of the product. For example, a truck assembly line may be arranged such that first the preassembled front and rear axles are attached to the frame, followed by the installation of the steering, the engine, and the transmission. Then, the brake lines and electrical cables are connected and other parts are assembled and painted. Finally, the truck is road tested.

A second alternative is to lay out the production system according to the *process* employed. In a hospital, for example, specific steps are likely to be followed: admission of the patient, treatment (which usually involves specific subprocesses), billing for service, and discharge. This may be followed by post-hospitalization treatment.

In a third kind (sometimes called *fixed position* layout), the product stays in one place for assembly. This layout is used for the assembly of extremely large and bulky items such as printing presses, large strip mining machines, and ships.

The fourth kind of layout is determined by the nature of the *project.* Building a bridge or tunnel is normally a one-time project designed to fit specific geographic requirements.

In the fifth kind, the layout is designed to facilitate the *sale* of products. In a supermarket, basic food items such as dairy products are normally located away from the checkout counters. This causes customers to walk through the long aisles and, it is hoped, select other items on the way to the dairy section.

A sixth basic approach is to design the process so that it facilitates *storage or movement* of products. Storage space is costly, and an effective and efficient design can keep storage costs low. Also, to reach an item, it should not be necessary to move many other items.

Operating the System

After a product has been selected and the system for producing it has been designed and built, the next major step is to operate the system. This requires setting up an organization structure, staffing the positions, and training people. Managers are needed to provide the supervision and leadership to carry out activities necessary to produce desired products or provide services. Other activities such as purchasing and maintaining the inventory are also required in operating the system. The aim is to obtain the best productivity ratio within a time period with due consideration for quality.

Controlling Operations with Emphasis on Information Systems

Controlling operations, as in any other case of managerial control, requires setting performance criteria, measuring performance against them, and taking actions to correct undesirable deviations. Thus, one can control production, product quality and reliability levels, inventory levels, and workforce performance. A number of tools and techniques have been developed to do this, because their application extends beyond operations or production. Some, however, are important to operations; examined here is the role of information systems in operations control.

Information systems, which have been available for several years, integrate information virtually on instantaneous basis, thereby reducing delays that usually impede effective control. With the development of computer hardware and software, it is now possible for virtually any measurable data to be reported as events occur. Systems are available for quickly and systematically collecting data bearing on total operation, for keeping these data readily available, and for reporting without delay the status of any of a large number of projects at any instant. They are, thus, primarily information systems designed to provide effective planning and control.

The growing field of business analytics has focused on using the growing amount of data made available by online systems to provide real-time information to allow managers to better manage supply chains and make key business decisions to help enterprises run more effectively and efficiently.

Innovation Perspective

How an Information System Facilitates Operations

Applied widely now to purchasing, storage, manufacturing, and shipping, information systems may operate through dispatch stations and input centers located throughout a plant. At the dispatch centers, events are recorded as they occur, and the information is dispatched immediately to a computer. For example, when a worker finishes an assigned task on the assembly of a product, the work-order time card is put into a transactor, which electrically transmits to a computer the information that item X has passed through a certain process, has accumulated *y* hours of labor, and may or may not be on schedule as well as other pertinent data. The input centers are equipped to originate information needed for a production plan automatically from programmed instructions, purchase orders, shop orders, and other authorizations. These data are fed into a computer and compared against plans, which are used as standards against which actual operations can be compared.

In addition to providing fast entry, comparison, and retrieval of information, such an integrated operations control system furnishes needed information for planning programs in areas such as purchasing, production, and inventory control. Moreover, it permits almost instantaneous comparison of results with plans, pinpointing where they differ and providing a regular (daily or more often, if needed) system of reports on deviations from plans such as items that are behind schedule or costs that are running above budget.

Other planning, control, and information systems have been developed to reflect the interaction between production and distribution operations and such key financial measures as cost, profit, and cash flow. Companies with real-time computer models can give operating managers virtually instant analysis of what-if questions as the effects of reducing or raising output, the impact of a decline in demand, and the sensitivity of the system to labor-cost increases, price changes, and new equipment additions. To be sure, system models, simulating actual operations and their impact on financial factors, are primarily planning tools, but so are most control techniques. By making possible exceptionally quick responses to the many what-if questions of operating managers, system models can greatly reduce the time elapsed in correcting for deviations from plans and can materially improve control.

These and other systems that use the technology of fast computation clearly promise to hasten the day when planning of all the areas of production can be more precise and controlling more effective. The drawback is not cost; rather, it is the failure of managers to spend time and mental effort conceptualizing the system and its relationships or to see that someone else in the organization does so. Nevertheless, as pointed out in Chapter 18, fast information availability can never provide true real-time control of the time delay in any feedback system. Only a feedforward approach can overcome these delays.

TOOLS AND TECHNIQUES FOR IMPROVING PRODUCTIVITY

There are many tools and techniques available for improving manufacturing and service operations. They include inventory planning and control, the just-in-time (JIT) inventory system, outsourcing, operations research, value engineering, work simplification, quality circles, total quality management (TQM), lean manufacturing, computer- aided design (CAD), and computer-aided manufacturing (CAM).

Inventory Planning and Control

In the history of operations research, perhaps more attention has been directed to inventory control than to any other practical area of operations. The essential systems relationships can be seen as a little “black box” (Figure 20-2).

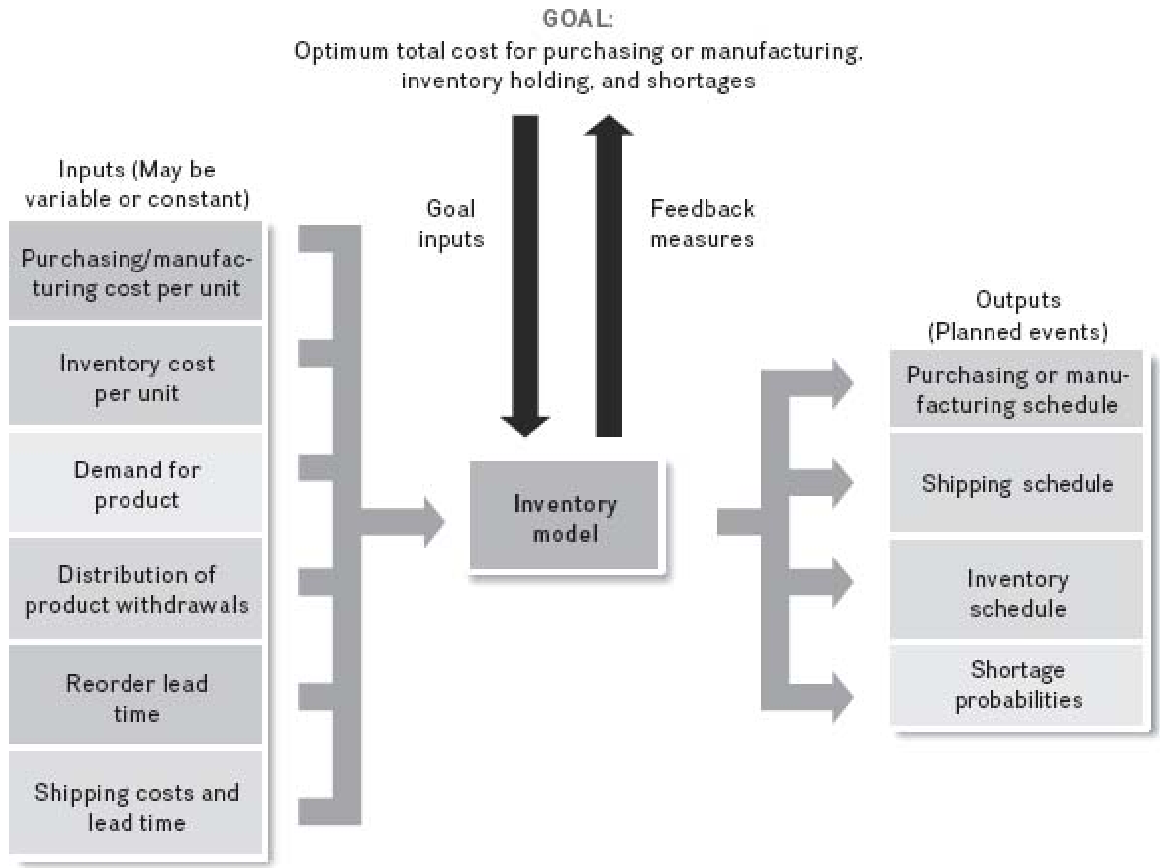

FIGURE 20-2 Inventory control model

In mathematical form, these conceptual relationships are expressed by the equation

$$Q_e = \sqrt{\frac{2DS}{H}}$$

where Q_e = economic order quantity

D = demand per year

S = setup costs

H = inventory-holding (carrying) cost per item per year

The model in Figure 20-2 illustrates several things. It forces consideration of the goals desired and of the need for placing values on outputs and inputs. It also furnishes a manager with the basis for plans and with standards by which to measure performance. However, with all its advantages, this is a subsystem and does not incorporate other subsystems such as production planning, distribution planning, and sales planning.

The **economic order quantity (EOQ) approach** to determining inventory levels has been used by firms for many years. It works reasonably well for finding order quantities when demand is predictable and fairly constant throughout the year (i.e., there are no seasonable patterns). However, for determining the inventory levels of parts and materials used for some production processes, it does not work well. For example, poor quality of parts may increase the demand for these production inputs. Thus, demand is likely to be intermittent, resulting in inventory shortages some times and excesses at other times. Firms determining inventory levels in these manufacturing settings have found that inventory control approaches such as material requirement planning and *kanban* (JIT) systems perform better than EOQ.

Just-in-Time Inventory System

One reason for Japan's high manufacturing productivity is the cost reduction it achieves through its **JIT inventory method**. In this system, the supplier delivers the components and parts to the production line only when needed and JIT to be assembled. Other names for this or very similar methods are **zero inventory** and **stockless production**.

Just-in-time inventory system The supplier delivers the components and parts to the production line only when needed and JIT to be assembled.

For this method to work, a number of requirements must be fulfilled. First, the quality of the parts must be very high—a defective part could hold up the assembly line; second, there must be dependable relationships and smooth cooperation with suppliers; and third, the suppliers ideally should be located near the company, with dependable transportation available.

Outsourcing[4]

One recent trend in the United States and Europe is **outsourcing**. This means that production and operations are contracted to outside vendors that have expertise in specific areas. The aim may be to reduce costs by saving on personnel benefits, to reduce personnel, or to be able to reassign employees to other tasks that are more important. Thus, outsourcing is an important tool for expanding a company and for maintaining a competitive position. It enables a firm to focus on its core competencies and let outside companies do what they can do best. For example, Nike, Inc., the large supplier of athletic shoes, uses outsourcing for all of its shoe production, keeping only the production of the sophisticated Nike Air system. It also outsources advertising. By focusing on what it can do best, Nike has accomplished an extraordinary growth rate.

Outsourcing The contracting of production and operations to outside vendors that have expertise in specific areas.
www.nike.com

Other reasons for outsourcing include gaining access to the best sources available worldwide, sharing of risks between the firm and its suppliers, allocating capital to key success factors, outsourcing functions that are difficult to manage, or lacking the capability to carry out certain tasks.

Outsourcing may also serve as a strategic weapon. General Motors produces almost two-thirds of its parts in-house compared to Chrysler, which “insources” only about one-third of its parts. This gives Chrysler a competitive advantage because General Motors’ in-house labor costs are substantially higher than the suppliers’. Kodak found it more effective to outsource the day-to-day operation of its fleet of 10,000 vehicles. Similarly, Procter & Gamble benefited from outsourcing its fleet operation, thus lowering its costs and improving the productivity of its sales force. Another function that may be outsourced is property management. Johnson Controls, for example, provides operation and maintenance services of buildings. The Presbyterian Medical Center in Philadelphia selected a single source for managing various tasks, including its food service, security, environmental services, central processing, transportation, maintenance, and engineering functions. Even Apple Computer has outsourced its system and network engineering as well as its telecommunication and help desk services to a Canadian company. Outsourcing parts of the retailers' information system helped Britain's Woolworth's department store to reduce costs and gain skills.

The potential advantages of outsourcing are that it may lower the cost, it allows the firm to concentrate on its mission and focus on its core competencies. The company may also learn from the other firm. However, outsourcing can also have disadvantages such as losing some control and skills, impacting on the work culture if a lower-cost provider is chosen. The out-sourced firm may also become a competitor.

It has been suggested that, before deciding on outsourcing, a business practice reengineering* study should be conducted. The findings of this analysis may indicate which tasks are best suited for being continued within the company and which should be contracted out.

Innovation Perspective

GE's Contribution to India's Outsourcing Boom[6]

In 1989, few companies realized the outsourcing potential of India. When Jack Welch, then CEO of GE, visited India, he was told of India's need for developing the high-tech sector. But it was after 1991, when the Indian government began reducing tariff barriers and export controls that India's economy started taking off. Mr. Welch's emphasis of cost-cutting made India's companies aware of their potential competitive strengths. GE's confidence in India's advantage encouraged other investments. GE itself opened the Technology Center in Bangalore providing thousands of employees to work on many projects, including developing new refrigerators, jet engines, and many software projects. GE and other companies contributed to India's economic growth of about 7 percent in 2005.

www.ge.com

India's competitive strength becomes clear when comparing its labor rates with that in the United States. For example, software programmers with two- to four-year experience earn approximately $10,000 annually in India, while a U.S. counterpart makes some $62,000. Similarly, workers at India's call centers earn some $3,000 a year while a similar job in the United States pays $27,000. While today many companies have located their service centers to India, only few people realize GE's contribution to India's outsourcing boom.

Operations Research

There are almost as many definitions of operations research as there are writers on the subject. For the purposes of this discussion, the most acceptable definition is that **operations research** is the application of scientific methods to the study of alternatives in a problem situation, with a view to obtaining a quantitative basis for arriving at a best solution. Thus, the emphasis is on scientific method, on the use of quantitative data, on goals, and on the determination of the best means of reaching the goals. In other words, operations research might be called "quantitative common sense."

Operations research The application of scientific methods to the study of alternatives in a problem situation with a view to obtaining a quantitative basis for arriving at a best solution.

Value Engineering

A product can be improved and its costs lowered through **value engineering**, which consists of analyzing the operations of the product or service, estimating the value of each operation, and attempting to improve that operation by trying to keep costs low at each step or part. The following specific steps are suggested:

Value engineering The process of analyzing the operations of the product or service, estimating the value of each operation, and attempting to improve that operation by trying to keep costs low at each step or part.

1. Divide the product into parts and operations.
2. Identify the costs for each part and operation.
3. Identify the relative value of the contribution of each part to the final unit or product.
4. Find a new approach for those items that appear to have a high cost and low value.

Work Simplification

Work methods can also be improved through **work simplification**, which is the process of obtaining the participation of workers in simplifying their work. Training sessions are conducted to teach concepts and principles of techniques such as time and motion studies, workflow analyses, and the layout of the work situation.

Work simplification The process of obtaining workers' participation in simplifying their work.

Quality Circles

A quality control circle or **quality circle** (QC) is a group of people from the same organizational area who meet regularly to solve problems they experience at work. Members are trained in solving problems, in applying statistical quality control, and in working in groups. Usually a facilitator works with each group, which normally consists of 6-12 members. The QCs may meet four hours a month.

Although QC members may receive recognition, they usually do not receive monetary rewards.

Quality circle A group of people from the same organizational area who meet regularly to solve problems they experience at work. International

International Perspective

Quality Circles in Japan

For some time now, Japanese products have been well received. To a great extent, this has been due to the quality of the products; but this has not always been the case. In fact, in the 1950s and 1960s, many products made in Japan had the image of poor quality.

In order to compete in the world market, Japanese firms had to improve the quality of their products. The campaign to improve quality was initiated by regulatory action taken by the Japanese government. Shortly after World War II, the Japanese, realizing that their economic success depended on increasing exports, encouraged their government to set up a system of regulations mandating that all exporters submit to a government agency a sample of each product to be exported and that they meet demanding requirements for quality before receiving a permit to export.

The legislative drive for quality was supported by various management techniques encouraging or requiring product quality. One of the techniques is QC, now in widespread use in Japan. At first, the focus was on the analysis of quality problems, but now other problems are also dealt with such as cost reduction, workshop facilities improvement, safety, employee morale, pollution control, and employee education.

QCs evolved from suggestion programs. In both approaches, workers participate in solving work-related problems. Although the problems are usually quite specific, those dealt with by QCs are often more complex and require the involvement of several team members. The team consists primarily of rank and file workers and sometimes supervisors, too. So-called efficiency experts are usually excluded from the team.

It is interesting to note that while the concept of quality control originated in the United States, the Japanese appear to have perfected it. More recently, American firms have “rediscovered” the importance of quality, as shown by advertisements for Chrysler and Ford automobiles. At any rate, there is no reason to doubt that QCs can be used by companies in the United States and other countries, which are now faced with a competitive situation in a world market that demands quality products.

Total Quality Management[7]

One popular approach to improving quality is called **TQM**. However, this term has various meanings. In general, TQM involves the organization’s long-term commitment to the continuous improvement of quality, throughout the organization and with the active participation of all members at all levels, to meet and exceed customer expectations. This top management-driven philosophy is considered a way of organizational life. In a sense, TQM is simply effective management.

Total quality management Long-term commitment to continuous quality improvement, throughout the organization and with the active participation of all members at all levels, to meet and exceed customer expectations.

Although the specific programs may vary, they usually require a careful analysis of customer needs, an assessment of the degree to which these needs are currently met, and a plan to fill the possible gap between the current and the desired situation. The success of this quality improvement approach often needs the cooperation of suppliers. Furthermore, to make the TQM program effective, top managers must be involved. They must provide a vision, reinforce values emphasizing quality, set quality goals, and deploy resources for the quality program. It is obvious that TQM demands a free flow of information—vertically, horizontally, and diagonally.

Training and development is very important for developing skills and for learning how to use tools and techniques such as statistical quality control. This continual effort for improving quality requires an environment that can be called a learning organization (Chapter 13). Any quality improvement effort needs not only the support, but also the involvement of management, from the top to the bottom as well as nonmanagerial employees. People need to be empowered to initiate and implement the necessary changes. In the modern, interlocking organization, teamwork often becomes a prerequisite for an effective and efficient operation.

The quality improvement efforts need to be continuously monitored through ongoing data collection, evaluation, feedback, and improvement programs. TQM is not a one-time effort; instead, it is a continual, long-term endeavor that needs to be recognized, reinforced, and rewarded.

When done effectively, TQM should result in greater customer satisfaction, fewer defects and less waste, increased total productivity, reduced costs and improved profitability, and an environment in which quality has high priority.

A concern for quality should not be restricted to business. Principles of quality improvement also apply to government. The mayor of Madison, Wisconsin, demonstrated how quality programs can be implemented in the city government. The first test came in the motor equipment division. After the initial success, a formal quality program was started citywide. What is surprising is that resistance to the program came not from unions or from the city council but from middle-level bureaucrats, who saw their power being eroded by the reduction in departmental barriers and by greater teamwork.

Quality management is of global concern. Therefore, the topics of the contributions by quality gurus, the Malcolm Baldrige National Quality Award, ISO 9000, and the European model for TQM are discussed in Chapter 3 on global management.

Lean Manufacturing[8]

A study at the Massachusetts Institute of Technology that compared American, Japanese, and European car manufacturers showed that the Japanese gained a competitive advantage from the use of fewer workers, a shorter development time, lower inventories, fewer suppliers, less production space, and less investment to produce more models. The Japanese also had much shorter delivery time and were more productive than the Americans and Europeans.

Some of the differences between traditional mass production and lean production managerial practices are listed in Table 20-2.

TABLE 20-2 Mass production versus lean production managerial practices

Mass production	Lean production
• Sporadic and inconsistent improvements	• Continuous improvements *(kaizen)* with strategic breakthroughs
• Satisfied with “good enough”	• Aiming at zero defects
• High inventory acceptable	• Just-in-time inventory system
• “Me” management with emphasis on individual performance	• “We” or team management
• Attitude that workers are the cause of poor quality	• Responsibility for problems rests on everyone, especially management

It should be pointed out that, since the study was conducted, U.S. and European automobile manufacturers have adopted many of the lean production concepts and have become more productive. Lean thinking has even spread to nonautomotive companies. Walmart, a U.S. retail store, installed a JIT delivery system that works by letting suppliers connect to its computerized ordering system. Thus, suppliers can anticipate demands for their products. Pratt & Whitney, a U.S. aerospace firm, rearranged its work flow and thereby reduced its stock level by 70 percent and its unit costs by 20 percent.

http://www.pw.utc.com

Computer-Aided Techniques

Product design and manufacturing have been changing in recent years, largely because of the application of computer technology. CAD and CAM are part of the cornerstones of the factory of the future.

CAD/CAM help engineers design products much more quickly than they could with the traditional paper-and-pencil approach. This will become increasingly important, since product life cycles are getting shorter. Capturing the market quickly is crucial in the competitive environment. Moreover, firms can respond rapidly to the requests of customers with specific requirements. The ultimate aim of many companies is computer-integrated manufacturing.

SUPPLY CHAIN AND VALUE CHAIN MANAGEMENT [9]

The terms supply chain and value chain management are sometimes used interchangeably. However, *Industry Week* points out that **supply chain management** focuses on the sequence of getting raw materials and subassemblies through the manufacturing process in an economical manner. **Value chain management**, on the other hand, has a broader meaning and involves analyzing every step in the process, ranging from the handling of raw materials to servicing end users, providing them with the greatest value at the lowest cost. Therefore, some suggest that supply chain management focuses more on the internal process with an emphasis on efficient flow of resources such as materials, while value chain management has similar aims with an additional concern for the external environment such as the customer.

Supply chain management focuses on the sequence of getting raw materials and subassemblies through the manufacturing process economically.

Value chain management involves analyzing every step in the process, ranging from the handling of raw materials to servicing end users, providing them with the greatest value at the lowest cost.

Professor Michael Porter popularized the **value chain process model**, which includes the primary activities of inbound logistics, operations, outbound logistics, marketing/sales, and service. The process is supported by the enterprise infrastructure, the management of human resources, technology, and procurement. Porter’s model illustrates that value chain analysis has a broader orientation than supply chain management.

The **value chain process model** includes the primary activities of inbound logistics, operations, outbound logistics, marketing/sales, and service, with the process supported by the enterprise infrastructure, human resource management, technology, and procurement.

The goal of value chain management is to create a seamless chain of activities from the supplier, through the manufacturer, and to the customer to meet and exceed his or her expectations. The process requires that all managerial functions of planning, organizing, staffing, leading, and controlling be carried out effectively and efficiently in a collaborative manner. In addition, technology is used to facilitate the entire process. The previous chapter, on the various aspects of information technology, discussed how this can be done. Value chain management may require a thorough analysis of the organizational process using reengineering concepts (Chapter 7). Still another way of improving the value chain (especially for manufacturing) is to study and apply the operations management model (Figure 20-1).

International Perspective

The Interconnected Global Supply Chain Management

Thomas Friedman in his book *The World is Flat* called the new supply chaining in the global market a "flattener."[10] For example, this means that a company uses the lowest priced products wherever they may be obtained, being China, India, or elsewhere. Robin Meredith used the term "disassembly line." I like to call this trend as the *interconnected global supply chain*. For example, clothing sold by J. C. Penney in America may include yarn produced in Korea, buttons from China, and finished in Thailand.[11] Similarly, Apple's iPod may be produced in China, but containing chips that were invented in India. For many years, car companies have been using parts often produced in various countries. The aim is to obtain quality products at a low price. While the transportation costs partly offset the labor cost savings, the oil crisis, especially after 2008, will have a dramatic impact on the management of the supply chain. This is particularly true for heavier goods.

As we pointed out earlier, management is one of the most important human activities. We introduced the systems approach to managing in which key managerial activities are grouped into the managerial functions of planning, organizing, staffing, leading, and controlling. These functions are essential for any organization. However, the application of the key managerial activities and the time spent for each function varies for each organizational level and the kind of enterprise— those aiming for profit and those not for profit. Management is an art that uses the underlying sciences. The goal of all managers is the same: to create a surplus that benefits not only people and the organization, but also the nation and the society.

SUMMARY

Productivity is a major concern of managers. It implies measurement, an essential step in the control process. The productivity measurement of skilled workers is generally easier than that of knowledge workers such as managers. Yet, managerial productivity is very important, especially for organizations operating in a competitive environment.

Production management refers to those activities necessary to manufacture products; it may also include purchasing, warehousing, transportation, and other operations. Operations management has a similar meaning, referring to activities necessary to produce and deliver a service as well as a physical product. Quality measurement in the information age requires factors other than reliability, such as the information infrastructure and the services of software suppliers.

The operations management system model includes inputs, the transformation process, outputs, and the feedback system. Selecting a product or service to produce requires consideration of customer needs, organizational goals, and the various interests of the functional managers of the enterprise. Planning and designing a product and its production involves several activities. Companies can choose from at least six kinds of production layouts catering for different production or operation needs. In order to operate the system, the managerial functions of organizing, staffing, and leading must be carried out effectively. Controlling operations requires an information system often supported by computers.

A variety of tools and techniques are available for making operations more productive, including inventory planning and control, the JIT inventory system, outsourcing, operations research, value engineering, work simplification, quality circles, TQM, lean manufacturing, and a variety of computer-aided approaches. The concepts of supply chain management and value chain management are similar. However, the latter is more comprehensive and emphasizes the end user of the product or service.

KEY IDEAS AND CONCEPTS FOR REVIEW

- Productivity problems and measurement
- Production management
- Operations management
- Quality in the information age
- Operations management system
- Steps in product and production design
- Production layouts
- Inventory planning and control
- Just-in-time inventory system
- Outsourcing
- Operations research
- Value engineering
- Work simplification
- Quality circle
- Total quality management
- Lean manufacturing
- Computer-aided design
- Computer-aided manufacturing
- Supply chain management
- Value chain management
- Value chain process model

FOR DISCUSSION

1. How would you measure the productivity of managers and other knowledge workers? Explain in detail.
2. Why is the field of production and operations management good to use as a case example of planning and control techniques? Why do you think this area was favored for analysis and productivity improvement by the pioneers in the field of management?

3. Distinguish between the planning and control techniques that are usually found only in production and operations management and those that are found useful in all areas of management. Why is there a distinction?
4. Explain the nature of and reasons for each step usually found in the development of a production and operations management program.
5. There are many typical layouts used in the design of a production program. Which one is ordinarily used for the manufacture of automobiles? Why?
6. Real-time information can be widely used in the area of production, but this does not solve the problem of control. Why?
7. What tools generally found in operations research have been widely used in production and operations management? Do they have anything in common? If so, what is it?
8. Why do you believe that quality control circles have been used so much in Japan?

EXERCISES/ACTION STEPS

1. Draw the layout of your apartment or house and indicate the pathways you take while doing your typical daily chores. Show any rearrangements you could make that would increase your effectiveness and personal productivity.
2. Interview several managers in a local company and ask how they measure the quality of their operations.

INTERNET RESEARCH

1. Toyota was the first to adopt the JIT system. Dell applied the virtual network to JIT. Search the Internet for the term “just-in-time.” Find out how JIT is used by enterprises.
2. Search the Internet for the term “total quality management.” How is the approach used by organizations? Present your findings to the class.

Innovation Case

What Future Car Do You Want?[12]

Cars are changing continuously. Customers want safer, more fuel-efficient cars, and cars that “think” for the driver. To some extent, the futuristic car is already here, but many new features evolve rather quickly. Demand for gas-electric hybrids from Toyota and Honda is great as gas prices have soured. Hybrids from Toyota (Prius), Lexus (RX 40), Honda (Civic and Accord models), and Ford’s SUV (Escape) are now more often seen on U.S. highways. Company’s such as DaimlerChrysler and other carmakers investing in hydrogen and fuel research. But it appears that this technology is still far away to be used in large numbers on passenger cars. The higher cost is only one factor in slowing the use of hydrogen-powered cars; safety and the need for a network of fuel stations are other considerations.

But the most dramatic advances can be expected in the use of electronic devices such as “active steering” using computer-controlled small electric motors in the BMW, cruise control that can identify when the driver gets too close to another vehicle. Increasingly, 2006 vehicles are equipped with satellite radios.

The traditional haggling over price at dealerships is also changing. Consumers now can find information not only about the technical details of cars, but also price information on the Internet.

Questions

1. What features would you be looking for in a new car?
2. List and prioritize the features important to you?
3. How important is safety, fuel economy, reliability, looks, entertainment, and others? Give the reason for your choices.

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* See the discussion of reengineering in Chapter 7.

Part 6 Closing

Summary of Major Principles or Guides for the Managerial Functions of Controlling

As previously mentioned in the other Part Closings, certain fundamental managerial principles or guides have also been identified for controlling.

Each principle has a letter that represents the type of managerial function. The letter "C" in front of the principles therefore indicates that it pertains to the managerial function of controlling.

MAJOR PRINCIPLES OR GUIDES FOR CONTROLLING

From the discussions in the chapters on management control, there have emerged certain essentials, or basic truths. These, which are referred to as "principles," are designed to highlight aspects of control that are regarded as especially important. In view of the fact that control, even though representing a system itself, is a subsystem of the larger area of management, certain of these principles are understandably similar to those identified in the discussions of the other managerial functions.

The Purpose and Nature of Control

The purpose and nature of control may be summarized by the following principles.

C1. *Principle of the purpose of control.* The task of control is to ensure the success of plans by detecting deviations from plans and furnishing a basis for taking action to correct potential or actual undesired deviations.

C2. *Principle of future-directed controls.* Because of time lags in the total system of control. the more a control system is based on feed forward rather than simple feedback of information, the more managers have the opportunity to perceive undesirable deviations from plans before they occur and to take action in time to prevent them.

These two principles emphasize that the purpose of control in any system of managerial action is ensuring that objectives are achieved through detecting deviations and taking action designed to correct or prevent them. Control, like planning, should ideally be forward- looking. This principle is often disregarded in practice, largely because the state of the art in managing has not regularly provided for systems of feed forward control. Managers have generally been dependent on historical data, which may be adequate for collecting taxes and determining stockholders' earnings but are not good enough for the most effective control. If means of looking forward are lacking, reference to history, on the questionable assumption that "what is past is prologue," is better than not looking at all. But time lags in the system of management control make it imperative that greater efforts be undertaken to make future- directed control a reality.

C3. *Principle of control responsibility*. The primary responsibility for the exercise of control rests in the manager charged with the performance of the particular plans involved.

C4. *Principle of efficiency of controls*. Control techniques and approaches are efficient if they detect and illuminate the nature and causes of deviations from plans with a minimum of costs or other unsought consequences.

C5. Principle of preventive control. The higher the quality of managers in a managerial system, the less will be the need for direct controls.

To maximize the efficiency of controls, the above three principles should be observed. First, since delegation of authority, assignment of tasks, and responsibility for certain objectives rest in individual managers, it follows that control over this work should be exercised by each of these managers. An individual manager's responsibility cannot be waived or rescinded without changing the organization structure.

The second point to note is that control techniques have a way of becoming costly, complex, and burdensome. Managers may become so engrossed in control that they spend more than it is worth to detect a deviation. Detailed budget controls that hamstring a subordinate, complex mathematical control that thwart innovation, and cumbersome purchasing controls that delay deliveries and cost more than the item purchased are examples of inefficient controls.

Lastly, most controls are based in large part on the fact that human beings make mistakes and often do not react to problems promptly and adequately. The more qualified managers are, the more they will perceive deviations from plans and take timely action to prevent them.

The Structure of Control

The principles that follow are aimed at pointing out how control systems and techniques can be designed to improve the quality of managerial control.

C6. Principle of reflection of plans. The more that plans are clear, complete, and integrated, and the more that controls are designed to reflect such plans, the more effectively controls will serve the needs of managers.

C7. *Principle of organizational suitability*. The more that an organization structure is clear, complete, and integrated, and the more that controls are designed to reflect the place in the organization structure where responsibility for action lies, the more controls will facilitate correction of deviations from plans.

C8. *Principle of individuality of controls*. The more that control techniques and information are understandable to individual managers who must utilize them, the more they will actually be used and the more they will result in effective control.

First of all, it is not possible for a system of controls to be devised without plans, since the task of control is to ensure that plans work out as intended. There can be no doubt that the more clear, complete, and integrated these plans are, and the more that control techniques are designed to follow the progress of these plans, the more effective the controls will be.

Secondly, plans are implemented by people. Deviations from plans must be the responsibility primarily of managers who are entrusted with the task of executing planning programs. Since it is the function of an organization structure to define a system of roles, it follows that controls must be designed to affect the role in which responsibility for performance of a plan lies.

Although some control techniques and information can be utilized in the same form by various kinds of enterprises and managers, as a general rule controls should be tailored to meet the individual needs of managers. Some of this individuality is related to position in the organization structure, as noted in the second principle. Another aspect of individuality is the tailoring of controls to the kind and level of managers' understanding. Company presidents as well as supervisors have thrown up their hands in dismay (often for quite different reasons) at the unintelligible nature and inappropriate form of control information. Control information that a manager cannot or will not use has little practical value.

The Process of Control

Control, often being so much a matter of technique, rests heavily on the art of managing, on know-how in given instances. However, there are certain principles that experience has shown have wide applicability.

C9. *Principle of standards*. Effective control requires objective, accurate, and suitable standards.

C10. *Principle of critical point control*. Effective control requires special attention to those factors critical to evaluating performance against plans.

C11. *The exception principle*. The more that managers concentrate control efforts on significant exceptions from planned performance, the more efficient will be the results of their control.

There should be a simple, specific, and verifiable way to measure whether a planning program is being accomplished. Control is accomplished through people. Even the best manager cannot help being influenced by personal factors, and actual performance is sometimes camouflaged by a dull or a sparkling personality or by a subordinate's ability to "sell" a deficient performance. Good standards of performance, objectively applied-as required by the principle of standards—will more likely be accepted by subordinates as fair and reasonable.

It would ordinarily be wasteful and unnecessary for managers to follow every detail of plan execution. What they must know is that plans are being implemented. Therefore, they concentrate their attention on salient factors of performance—the critical points—that will indicate any important deviations from plans. Perhaps all managers can ask themselves what things in their operations will best show them whether the plans for which they are responsible are being accomplished.

The exception principle holds that managers should concern themselves with significant deviations—the especially good or the especially bad situations. It is often confused with the principle of critical point control, and the two do have some kinship. However, critical point control has to do with recognizing the points to be watched, while the exception principle is concerned with watching the size of deviations at these points.

C12. *Principle of flexibility of controls.* If controls are to remain effective despite failure or unforeseen changes of plans, flexibility is required in their design.

C13. *Principle of action.* Control is justified only if indicated or actual deviations from plans are corrected through appropriate planning, organizing, staffing, and leading.

According to the flexibility principle, controls must not be so inflexibly tied in with a plan as to be useless if the entire plan fails or is suddenly changed. Note that this principle applies to failure of plans, not failure of people operating under plans.

There are instances in practice in which this simple truth is forgotten: control is a wasteful use of managerial and staff time unless it is followed by action, as the principle of action stresses. If deviations are found in actual or projected performance, action is indicated, in the form of either redrawing plans or making additional plans to get back on course. The situation may call for reorganization. It may require replacing subordinates or training them to do the task required. Or it may indicate that the fault is a lack of direction and leadership in getting a subordinate to understand the plans or in motivating him or her to accomplish them. In any case, action is implied.

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