

# Principles of Management for Leadership Communication



# Principles of Management for Leadership Communication

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PART I

CHAPTER I:  
INTRODUCTION TO  
PRINCIPLES OF  
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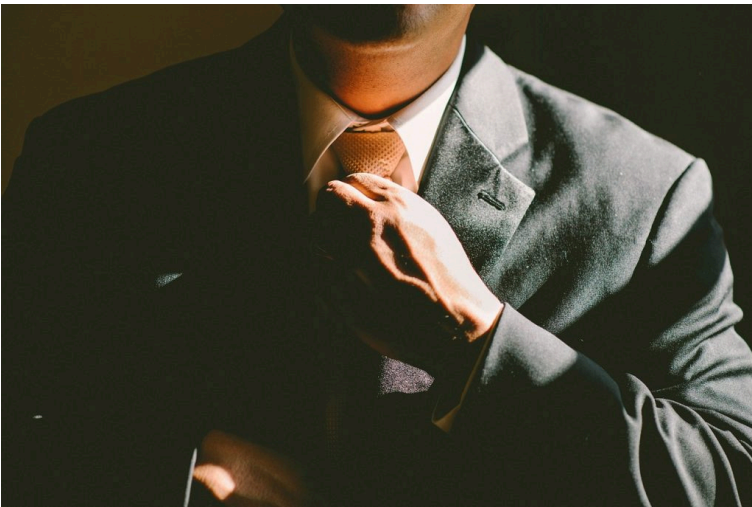
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# 1.1 Introduction to Principles of Management

Figure 1.1



Managers make things happen through strategic and entrepreneurial leadership.

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## *What's in It for Me?*

Reading this chapter will help you do the following:

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

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

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

Before getting ahead of ourselves, just what is management, let alone principles of management? A manager's primary challenge is to solve problems creatively, and you should view management as

“the art of getting things done through the efforts of other people.”<sup>1</sup> The principles of management, then, are the means by which you actually manage, that is, get things done through others—individually, in groups, or in organizations. Formally defined, the principles of management are the activities that “plan, organize, and control the operations of the basic elements of [people], materials, machines, methods, money and markets, providing direction and coordination, and giving leadership to human efforts, so as to achieve the sought objectives of the enterprise.”<sup>2</sup> For this reason, principles of management are often discussed or learned using a framework called P-O-L-C, which stands for planning, organizing, leading, and controlling.

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

Managers do not spend all their time managing. When choreographers are dancing a part, they are not managing, nor are office managers managing when they personally check out a customer's credit. Some employees perform only part of the functions described as managerial—and to that extent, they are mostly managers in limited areas. For example, those who are assigned the preparation of plans in an advisory capacity to a manager, to that extent, are making management decisions by deciding which of several alternatives to present to the management. However, they have no participation in the functions of organizing, staffing, and supervising and no control over the implementation of the plan selected from those recommended. Even independent consultants are managers, since they get most things done through others—those *others* just happen to be their clients! Of course, if advisers or consultants have their own staff of subordinates, they become a manager in the fullest sense of the

definition. They must develop business plans; hire, train, organize, and motivate their staff members; establish internal policies that will facilitate the work and direct it; and represent the group and its work to those outside of the firm.

<sup>1</sup>We draw this definition from a biography of Mary Parker Follett (1868–1933) written by P. Graham, *Mary Parker Follett: Prophet of Management* (Boston: Harvard Business School Press, 1995). Follett was an American social worker, consultant, and author of books on democracy, human relations, and management. She worked as a management and political theorist, introducing such phrases as “conflict resolution,” “authority and power,” and “the task of leadership.”

<sup>2</sup>The fundamental notion of principles of management was developed by French management theorist Henri Fayol (1841–1925). He is credited with the original planning-organizing-leading-controlling framework (P-O-L-C), which, while undergoing very important changes in content, remains the dominant management framework in the world. See H. Fayol, *General and Industrial Management* (Paris: Institute of Electrical and Electronics Engineering, 1916).

## 1.2 Case in Point: Doing Good as a Core Business Strategy

Figure 1.2



Timothy Brown - [Browsing](#) - CC BY 2.0.

Goodwill Industries International (a nonprofit organization) has been an advocate of diversity for over 100

years. In 1902, in Boston, Massachusetts, a young missionary set up a small operation enlisting struggling immigrants in his parish to clean and repair clothing and goods to later sell. This provided workers with the opportunity for basic education and language training. His philosophy was to provide a “hand up,” not a “hand out.” Although today you can find retail stores in over 2,300 locations worldwide, and in 2009 more than 64 million people in the United States and Canada donated to Goodwill, the organization has maintained its core mission to respect the dignity of individuals by eliminating barriers to opportunity through the power of work. Goodwill accomplishes this goal, in part, by putting 84% of its revenue back into programs to provide employment, which in 2008 amounted to \$3.23 billion. As a result of these programs, every 42 seconds of every business day, someone gets a job and is one step closer to achieving economic stability.

Goodwill is a pioneer of social enterprise and has managed to build a culture of respect through its diversity programs. If you walk into a local Goodwill retail store you are likely to see employees from all walks of life, including differences in gender and race, physical ability, sexual orientation, and age. Goodwill provides employment opportunities for individuals with disabilities, lack of education, or lack of job experience. The company has created programs for individuals with criminal backgrounds who might otherwise be unable to find employment, including basic work skill development, job placement assistance, and life skills. In 2008, more than 172,000 people obtained employment, earning \$2.3 billion in wages and gaining tools to be productive members of their

community. Goodwill has established diversity as an organizational norm, and as a result, employees are comfortable addressing issues of stereotyping and discrimination. In an organization of individuals with such wide-ranging backgrounds, it is not surprising that there are a wide range of values and beliefs.

Management and operations are decentralized within the organization with 166 independent community-based Goodwill stores. These regional businesses are independent, not-for-profit human services organizations. Despite its decentralization, the company has managed to maintain its core values. Seattle's Goodwill is focused on helping the city's large immigrant population and those individuals without basic education and English language skills. And at Goodwill Industries of Kentucky, the organization recently invested in custom software to balance daily sales at stores to streamline operations so managers can spend less time on paperwork and more time managing employees.

Part of Goodwill's success over the years can be attributed to its ability to innovate. As technology evolves and such skills became necessary for most jobs, Goodwill has developed training programs to ensure that individuals are fully equipped to be productive members of the workforce, and in 2008 Goodwill was able to provide 1.5 million people with career services. As an organization, Goodwill itself has entered into the digital age. You can now find Goodwill on Facebook, Twitter, and YouTube. Goodwill's business practices encompass the values of the triple bottom line of people, planet, and profit. The organization is taking advantage of new green initiatives and pursuing opportunities for sustainability. For example,

at the beginning of 2010, Goodwill received a \$7.3 million grant from the U.S. Department of Labor, which will provide funds to prepare individuals to enter the rapidly growing green industry of their choice. Oregon's Goodwill Industries has partnered with the Oregon Department of Environmental Quality and its Oregon E-Cycles program to prevent the improper disposal of electronics. Goodwill discovered long ago that diversity is an advantage rather than a hindrance.

Based on information from Goodwill Industries of North Central Wisconsin. (2009). A brief history of Goodwill Industries International. Retrieved March 3, 2010, from <http://www.goodwillncw.org/goodwillhistory1.htm>; Walker, R. (2008, November 2). Consumed: Goodwill hunting. *New York Times Magazine*, p. 18; Tabafunda, J. (2008, July 26). After 85 years, Seattle Goodwill continues to improve lives. *Northwest Asian Weekly*. Retrieved March 1, 2010, from <http://www.nwasianweekly.com/old/2008270031/goodwill20082731.htm>; Slack, E. (2009). Selling hope. *Retail Merchandiser*, 49(1), 89–91; Castillo, L. (2009, February 24). Goodwill Industries offers employment programs. *Clovis News Journal*. Retrieved April 22, 2010, from <http://www.cnjonline.com/news/industries-32474-goodwill-duttweiler.html>; Information retrieved April 22, 2010, from the Oregon E-Cycles Web site: <http://www.deq.state.or.us/lq/ecycle>.



# Discussion Questions

1. How might the implications of the P-O-L-C framework differ for an organization like Goodwill Industries versus a firm like Starbucks?
2. What are Goodwill's competitive advantages?
3. Goodwill has found success in the social services. What problems might result from hiring and training the diverse populations that Goodwill is involved with?
4. Have you ever experienced problems with discrimination in a work or school setting?
5. Why do you think that Goodwill believes it necessary to continually innovate?

## 1.3 Who Are Managers?

### *Learning Objectives*

1. Know what is meant by “manager”.
2. Be able to describe the types of managers.
3. Understand the nature of managerial work.

## Managers

We tend to think about managers based on their position in an organization. This tells us a bit about their role and the nature of their responsibilities. The following figure summarizes the historic and contemporary views of organizations with respect to managerial roles (Ghoshal & Barlett, 1999). In contrast to the traditional, hierarchical relationship among layers of management and managers and employees, in the contemporary view, top managers support and serve other managers and employees (through a process called empowerment), just as the organization ultimately exists to serve its customers and clients. Empowerment is the process of enabling or authorizing an individual to think,

behave, take action, and control work and decision making in autonomous ways.

## Figure 1.3

[1.3](#)

Communication is a key managerial role.

Adrian Gaskell – [Women In Management Eleanor McDonald Lecture](#) – CC BY 2.0.

In both the traditional and contemporary views of management, however, there remains the need for different types of managers. *Top managers* are responsible for developing the organization's strategy and being a steward for its vision and mission. A second set of managers includes functional, team, and general managers. *Functional managers* are responsible for the efficiency and effectiveness of an area, such as accounting or marketing. *Supervisory* or *team managers* are responsible for coordinating a subgroup of a particular function or a team composed of members from different parts of the organization. Sometimes you will hear distinctions made between line and staff managers.

A *line manager* leads a function that contributes directly to the products or services the organization creates. For example, a line manager (often called a *product*, or *service manager*) at Procter & Gamble (P&G) is responsible for the production, marketing, and profitability of the Tide detergent product line. A *staff manager*, in contrast, leads a function that creates indirect inputs. For example,

finance and accounting are critical organizational functions but do not typically provide an input into the final product or service a customer buys, such as a box of Tide detergent. Instead, they serve a supporting role. A *project manager* has the responsibility for the planning, execution, and closing of any project. Project managers are often found in construction, architecture, consulting, computer networking, telecommunications, or software development.

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

## Figure 1.4 The Changing Roles of Management and Managers



# The Nature of Managerial Work

Managers are responsible for the processes of getting activities completed efficiently with and through other people and setting and achieving the firm's goals through the execution of four basic management functions: planning, organizing, leading, and

controlling. Both sets of processes utilize human, financial, and material resources.

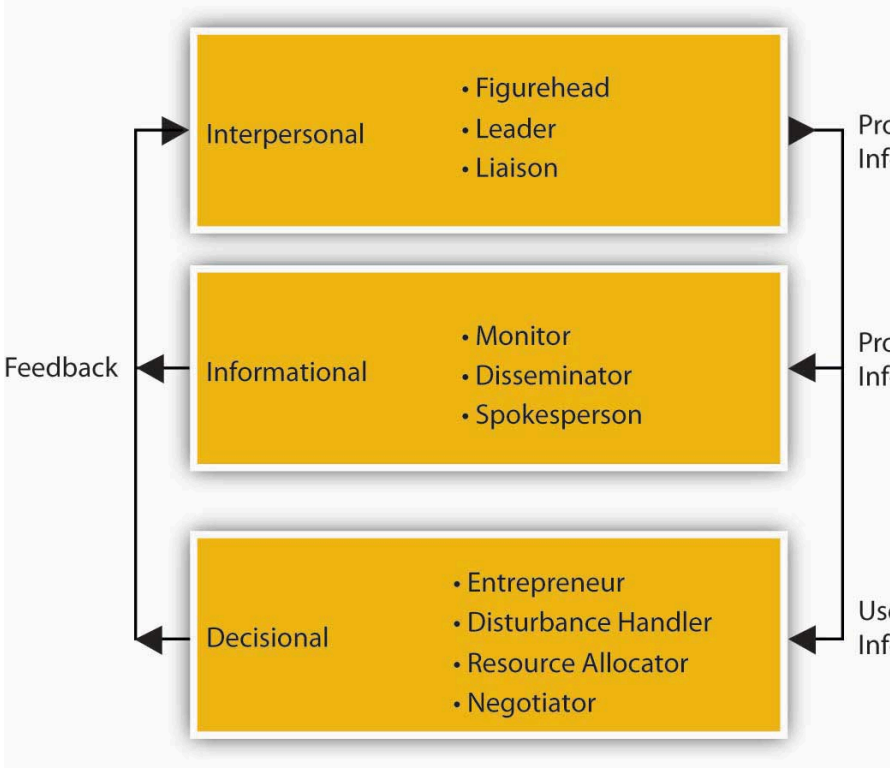
Of course, some managers are better than others at accomplishing this! There have been a number of studies on what managers actually do, the most famous of those conducted by Professor Henry Mintzberg in the early 1970s (Mintzberg, 1973). One explanation for Mintzberg's enduring influence is perhaps that the nature of managerial work has changed very little since that time, aside from the shift to an empowered relationship between top managers and other managers and employees, and obvious changes in technology, and the exponential increase in information overload.

After following managers around for several weeks, Mintzberg concluded that, to meet the many demands of performing their functions, managers assume multiple roles. A role is an organized set of behaviors, and Mintzberg identified 10 roles common to the work of all managers. As summarized in the following figure, the 10 roles are divided into three groups: interpersonal, informational, and decisional. The informational roles link all managerial work together. The interpersonal roles ensure that information is provided. The decisional roles make significant use of the information. The performance of managerial roles and the requirements of these roles can be played at different times by the same manager and to different degrees, depending on the level and function of management. The 10 roles are described individually, but they form an integrated whole.

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

it to maintain the routine flow of work. The leader role defines the relationships between the manager and employees.

Figure 1.5 Ten Managerial Roles



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

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

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

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

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



the most successful organizations seem to have well-formed and well-executed strategies, there is also a strong need for managers to have good strategies about the way they will approach their work. This is exactly what you will learn through principles of management.

### *Key Takeaway*

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

## Exercises

1. Why do organizations need managers?
2. What are some different types of managers and how do they differ?
3. What are Mintzberg's 10 managerial roles?
4. What three areas does Mintzberg use to organize the 10 roles?
5. What four general managerial functions do principles of management include?

## References

Ghoshal, S. and C. Bartlett, *The Individualized Corporation: A Fundamentally New Approach to Management* (New York: Collins Business, 1999).

Mintzberg, H. *The Nature of Managerial Work* (New York: Harper & Row, 1973).

# 1.4 Leadership, Entrepreneurship, and Strategy

## Learning Objectives

1. Know the roles and importance of leadership, entrepreneurship, and strategy in principles of management.
2. Understand how leadership, entrepreneurship, and strategy are interrelated.

The principles of management are drawn from a number of academic fields, principally, the fields of leadership, entrepreneurship, and strategy.

# Leadership

If management is defined as getting things done through others, then leadership should be defined as the social and informal sources of influence that you use to inspire action taken by others. It means mobilizing others to want to struggle toward a common goal. Great leaders help build an organization's human capital, then motivate individuals to take concerted action. Leadership also includes an understanding of when, where, and how to use more formal sources of authority and power, such as position or ownership. Increasingly, we live in a world where good *management* requires good *leaders* and *leadership*. While these views about the importance of leadership are not new (see “Views on Managers Versus Leaders”), competition among employers and countries for the best and brightest, increased labor mobility (think “war for talent” here), and hypercompetition puts pressure on firms to invest in present and future leadership capabilities.

P&G provides a very current example of this shift in emphasis to leadership as a key principle of management. For example, P&G recruits and promotes those individuals who demonstrate success through influence rather than direct or coercive authority. Internally, there has been a change from managers being outspoken and needing to direct their staff, to being individuals who electrify and inspire those around them. Good leaders and leadership at P&G used to imply having followers, whereas in today's society, good leadership means followership and bringing out the best in your peers. This is one of the key reasons that P&G has been consistently ranked among the top 10 most admired companies in the United States for the last three years, according to *Fortune* magazine (Fortune, 2008).

Whereas P&G has been around for some 170 years, another winning firm in terms of leadership is Google, which has only been around for little more than a decade. Both firms emphasize

leadership in terms of being exceptional at developing people. Google has topped *Fortune's* 100 Best Companies to Work for the past two years. Google's founders, Sergey Brin and Larry Page, built a company around the idea that work should be challenging and the challenge should be fun (Google, 2008). Google's culture is probably unlike any in corporate America, and it's not because of the ubiquitous lava lamps throughout the company's headquarters or that the company's chef used to cook for the Grateful Dead. In the same way Google puts users first when it comes to online service, Google espouses that it puts employees first when it comes to daily life in all of its offices. There is an emphasis on team achievements and pride in individual accomplishments that contribute to the company's overall success. Ideas are traded, tested, and put into practice with a swiftness that can be dizzying. Observers and employees note that meetings that would take hours elsewhere are frequently little more than a conversation in line for lunch and few walls separate those who write the code from those who write the checks. This highly communicative environment fosters a productivity and camaraderie fueled by the realization that millions of people rely on Google results. Leadership at Google amounts to a deep belief that if you give the proper tools to a group of people who like to make a difference, they will.

## Figure 1.6



## leadership style

Leaders inspire the collective action of others toward a shared goal.

[geralt](#) – CC0 public domain.

# Views on Managers Versus Leaders

*My definition of a leader...is a man who can persuade people to do what they don't want to do, or do what they're too lazy to do, and like it.*

*Harry S. Truman (1884–1972), 33rd president  
of the United States*

*You cannot manage men into battle. You  
manage things; you lead people.*

*Grace Hopper (1906–1992), Admiral, U.S. Navy*

*Managers have subordinates—leaders have followers.*

*Chester Bernard (1886–1961), former executive and author of Functions of the Executive*

*The first job of a leader is to define a vision for the organization...Leadership is the capacity to translate vision into reality.*

*Warren Bennis (1925–), author and leadership scholar*

*A manager takes people where they want to go.  
A great leader takes people where they don't  
necessarily want to go but ought to.*



*Rosalynn Carter (1927–), First Lady of the  
United States, 1977–1981*

# Entrepreneurship

It's fitting that this section on entrepreneurship follows the discussion of Google. Entrepreneurship is defined as the recognition of opportunities (needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas for new, thoughtfully planned ventures. Perhaps this is obvious, but an entrepreneur is a person who engages in the process of entrepreneurship. We describe entrepreneurship as a process because it often involves more than simply coming up with a good idea—someone also has to convert that idea into action. As an example of both, Google's leaders suggest that its point of distinction "is anticipating needs not yet articulated by our global audience, then meeting them with products and services that set new standards. This constant dissatisfaction with the way things are

is ultimately the driving force behind the world's best search engine (Google, 2008)."

Entrepreneurs and entrepreneurship are the catalysts for value creation. They identify and create new markets, as well as foster change in existing ones. However, such value creation first requires an opportunity. Indeed, the opportunity-driven nature of entrepreneurship is critical. Opportunities are typically characterized as problems in search of solutions, and the best opportunities are big problems in search of big solutions. "The greater the inconsistencies in existing service and quality, in lead times and in lag times, the greater the vacuums and gaps in information and knowledge, the greater the opportunities (Timmons, 1999)." In other words, bigger problems will often mean there will be a bigger market for the product or service that the entrepreneur creates. We hope you can see why the problem-solving, opportunity-seeking nature of entrepreneurship is a fundamental building block for effective principles of management.

## Strategy

When an organization has a long-term purpose, articulated in clear goals and objectives, and these goals and objectives can be rolled up into a coherent plan of action, then we would say that the organization has a strategy. It has a *good* or even *great* strategy when this plan also takes advantage of unique resources and capabilities to exploit a big and growing external opportunity. Strategy then, is the central, integrated, externally-oriented concept of how an organization will achieve its objectives (Hambrick

& Fredrickson, 2001). Strategic management is the body of knowledge that answers questions about the development and implementation of good strategies.

Strategic management is important to all organizations because, when correctly formulated and communicated, strategy provides leaders and employees with a clear set of guidelines for their daily actions. This is why strategy is so critical to the principles of management you are learning about. Simply put, strategy is about making choices: What do I do today? What shouldn't I be doing? What should my organization be doing? What should it stop doing?

# Synchronizing Leadership, Entrepreneurship, and Strategy

You know that leadership, entrepreneurship, and strategy are the inspiration for important, valuable, and useful principles of management. Now you will want to understand how they might relate to one another. In terms of principles of management, you can think of leadership, entrepreneurship, and strategic management as answering questions about “who,” “what,” and “how.” Leadership helps you understand who helps lead the organization forward and what the critical characteristics of good leadership might be. Entrepreneurial firms and entrepreneurs in general are fanatical about identifying opportunities and solving problems—for

any organization, entrepreneurship answers big questions about “what” an organization’s purpose might be. Finally, strategic management aims to make sure that the right choices are made—specifically, that a good strategy is in place—to exploit those big opportunities.

One way to see how leadership, entrepreneurship, and strategy come together for an organization—and for you—is through a recent (disguised) job posting from Craigslist. Look at the ideal candidate characteristics identified in the Help Wanted ad—you don’t have to look very closely to see that if you happen to be a recent business undergrad, then the organization depicted in the ad is looking for you. The posting identifies a number of areas of functional expertise for the target candidate. You can imagine that this new position is pretty critical for the success of the business. For that reason, we hope you are not surprised to see that, beyond functional expertise, this business seeks someone with leadership, entrepreneurial, and strategic orientation and skills. Now you have a better idea of what those key principles of management involve.

## Help Wanted—Chief of Staff

We’re hiring a chief of staff to bring some order to the

mayhem of our firm's growth. You will touch everything at the company, from finance to sales, marketing to operations, recruiting to human resources, accounting to investor relations. You will report directly to the CEO.

Here's what you're going to be asked to do across a range of functional areas in the first 90 days, before your job evolves into a whole new set of responsibilities:

#### Marketing

- Leverage our existing customer base using best-in-class direct marketing campaigns via e-mail, phone, Web, and print or mail communications.
- Convert our current customer spreadsheet and database into a highly functional, lean customer relationship management (CRM) system—we need to build the infrastructure to service and reach out to customers for multiple users.
- Be great at customer service personally—excelling in person and on the phone, and you will help us build a Ninja certification system for our employees and partners to be like you.
- Build our Web-enabled direct sales force, requiring a lot of strategic work, sales-force incentive design and experimentation, and rollout of Web features to support the direct channel.

#### Sales

- Be great at demonstrating our product in the showroom, as well as at your residence and in the field—plan to be one of the top sales reps on the team (and earn incremental variable compensation for your efforts).

## Finance and Accounting

- Build our financial and accounting structures and processes, take over QuickBooks, manage our team of accountants, hire additional resources as needed, and get that profit and loss statement (P&L) rocking.
- Figure out when we should pay our bills and manage team members to get things paid on time and manage our working capital effectively.
- Track our actual revenues and expenses against your own projection—you will be building and running our financial model.

## Operations

- We are building leading-edge capabilities on returns, exchanges, and shipping—you will help guide strategic thinking on operational solutions and will implement them with our operations manager.
- We are looking for new headquarters, you may help identify, build out, and launch.

## HR and Recruiting

- We are recruiting a team of interns—you will take the lead on the program, and many or all of them will report to you; you will be an ombudsman of sorts for our summer program.
- The company has a host of HR needs that are currently handled by the CEO and third parties; you will take over many of these.

## Production and Product Development

- The company is actively recruiting a production

assistant/manager—in the meanwhile, there are a number of Web-facing and vendor-facing activities you will pitch in on.

#### The Ideal Candidate Is...

- a few years out of college but is at least two or three years away from going to business or other graduate school;
- charismatic and is instantly likeable to a wide variety of people, driven by sparkling wit, a high degree of extraversion, and a balanced mix of self-confidence and humility;
- able to read people quickly and knows how to treat people accordingly;
- naturally compassionate and demonstrates strong empathy, easily thinking of the world from the perspective of another person;
- an active listener and leaves people with the sense that they are well heard;
- exceptionally detail-oriented and has a memory like a steel trap—nothing falls through the cracks;
- razor sharp analytically, aced the math section of their SAT test, and excels at analyzing and solving problems;
- a perfectionist and keeps things in order with ease.

# Key Takeaway

The principles of management are drawn from three specific areas—leadership, entrepreneurship, and strategic management. You learned that leadership helps you understand who helps lead the organization forward and what the critical characteristics of good leadership might be. Entrepreneurs are fanatical about identifying opportunities and solving problems—for any organization, entrepreneurship answers big questions about “what” an organization’s purpose might be. Finally, as you’ve already learned, strategic management aims to make sure that the right choices are made—specifically, that a good strategy is in place—to exploit those big opportunities.



# Exercises

1. How do you define leadership, and who would you identify as a great leader?
2. What is entrepreneurship?
3. What is strategy?
4. What roles do leadership, entrepreneurship, and strategy play in good principles of management?

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# 1.5 Planning, Organizing, Leading, and Controlling

## *Learning Objectives*

1. Know the dimensions of the planning-organizing-leading-controlling (P-O-L-C) framework.
2. Know the general inputs into each P-O-L-C dimension.

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

It is important to note that this framework is not without criticism. Specifically, these criticisms stem from the observation that the P-O-L-C functions might be ideal but that they do not accurately depict the day-to-day actions of actual managers (Mintzberg, 1973; Lamond, 2004). The typical day in the life of a manager at any level can be fragmented and hectic, with the constant threat of having priorities dictated by the law of the trivial

many and important few (i.e., the 80/20 rule). However, the general conclusion seems to be that the P-O-L-C functions of management still provide a very useful way of classifying the activities managers engage in as they attempt to achieve organizational goals (Lamond, 2004).

Figure 1.7 The P-O-L-C Framework

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

# Planning

Planning is the function of management that involves setting objectives and determining a course of action for achieving those objectives. Planning requires that managers be aware of

environmental conditions facing their organization and forecast future conditions. It also requires that managers be good decision makers.

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

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

There are many different types of plans and planning.

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

Tactical planning is intermediate-range (one to three years) planning that is designed to develop relatively concrete and specific means to implement the strategic plan. Middle-level managers often engage in tactical planning.

Operational planning generally assumes the existence of organization-wide or subunit goals and objectives and specifies

ways to achieve them. Operational planning is short-range (less than a year) planning that is designed to develop specific action steps that support the strategic and tactical plans.

# Organizing

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

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

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

Organizing at the level of a particular job involves how best to

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

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

# Leading

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

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

Studies of motivation and motivation theory provide important information about the ways in which workers can be energized to put forth productive effort. Studies of communication provide direction as to how managers can effectively and persuasively communicate. Studies of leadership and leadership style provide information regarding questions, such as, "What makes a manager a good leader?" and "In what situations are certain leadership styles most appropriate and effective?"

## Figure 1.8



Quality control ensures that the organization delivers on its promises.

International Maize and Wheat Improvement Center – [Maize seed quality control at small seed company Bidasem](#) – CC BY-NC-SA 2.0.

# Controlling

Controlling involves ensuring that performance does not deviate from standards. Controlling consists of three steps, which include (1) establishing performance standards, (2) comparing actual



performance against standards, and (3) taking corrective action when necessary. Performance standards are often stated in monetary terms such as revenue, costs, or profits but may also be stated in other terms, such as units produced, number of defective products, or levels of quality or customer service.

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

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

Effective controlling requires the existence of plans, since planning provides the necessary performance standards or objectives. Controlling also requires a clear understanding of where responsibility for deviations from standards lies. Two traditional control techniques are budget and performance audits. An audit involves an examination and verification of records and supporting documents. A budget audit provides information about where the organization is with respect to what was planned or budgeted for, whereas a performance audit might try to determine whether the figures reported are a reflection of actual performance. Although controlling is often thought of in terms of financial criteria, managers must also control production and operations processes, procedures for delivery of services, compliance with company policies, and many other activities within the organization.

The management functions of planning, organizing, leading, and controlling are widely considered to be the best means of describing

the manager's job, as well as the best way to classify accumulated knowledge about the study of management. Although there have been tremendous changes in the environment faced by managers and the tools used by managers to perform their roles, managers still perform these essential functions.

### *Key Takeaway*

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

### *Exercises*

1. What are the management functions that comprise the P-O-L-C framework?
2. Are there any criticisms of this framework?
3. What function does planning serve?
4. What function does organizing serve?
5. What function does leading serve?
6. What function does controlling serve?

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# 1.6 Economic, Social, and Environmental Performance

## *Learning Objectives*

1. Be able to define economic, social, and environmental performance.
2. Understand how economic performance is related to social and environmental performance.

Webster's dictionary defines performance as "the execution of an action" and "something accomplished" (Merriam Webster, 2008). Principles of management help you better understand the inputs into critical organizational outcomes like a firm's economic performance. Economic performance is very important to a firm's stakeholders particularly its investors or owners, because this performance eventually provides them with a return on their investment. Other stakeholders, like the firm's employees and the society at large, are also deemed to benefit from such performance, albeit less directly. Increasingly though, it seems clear that noneconomic accomplishments, such as reducing waste and pollution, for example, are key indicators of performance as well. Indeed, this is why the notion of the triple bottom line is gaining so much attention in the business press. Essentially, the triple bottom line refers to The measurement of business performance along social, environmental, *and* economic dimensions. We introduce you to economic, social, and environmental performance and conclude

the section with a brief discussion of the interdependence of economic performance with other forms of performance.

## Economic Performance

In a traditional sense, the economic performance of a firm is a function of its success in producing benefits for its owners in particular, through product innovation and the efficient use of resources. When you talk about this type of economic performance in a business context, people typically understand you to be speaking about some form of profit.

The definition of economic profit is the difference between revenue and the opportunity cost of all resources used to produce the items sold (Albrecht, 1983). This definition includes implicit returns as costs. For our purposes, it may be simplest to think of economic profit as a form of accounting profit where profits are achieved when revenues exceed the accounting cost the firm “pays” for those inputs. In other words, your organization makes a profit when its revenues are more than its costs in a given period of time, such as three months, six months, or a year.

Before moving on to social and environmental performance, it is important to note that *customers* play a big role in economic profits. Profits accrue to firms because customers are willing to pay a certain price for a product or service, as opposed to a competitor's product or service of a higher or lower price. If customers are only willing to make purchases based on price, then a firm, at least in the face of competition, will only be able to generate profit if it keeps its costs under control.

# Social and Environmental Performance

You have learned a bit about economic performance and its determinants. For most organizations, you saw that economic performance is associated with profits, and profits depend a great deal on how much customers are willing to pay for a good or service.

With regard to social and environmental performance, it is similarly useful to think of them as forms of profit—social and environmental profit to be exact. Increasingly, the topics of social and environmental performance have garnered their own courses in school curricula; in the business world, they are collectively referred to as corporate social responsibility (CSR).

CSR is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities, and the environment in all aspects of their operations. This obligation is seen to extend beyond the statutory obligation to comply with legislation and sees organizations voluntarily taking further steps to improve the quality of life for employees and their families, as well as for the local community and society at large.

Two companies that have long blazed a trail in CSR are Ben & Jerry's and S. C. Johnson. Their statements about why they do this, summarized in Table 1.1 “Examples of leading firms with strong CSR orientations”, capture many of the facets just described.

# Table 1.1 Examples of leading firms with strong CSR orientations

Why We Do It?	
Ben & Jerry's	<p>"We've taken time each year since 1989 to compile this [Social Audit] report because we continue to believe that it keeps us in touch with our Company's stated Social Mission. By raising the profile of social and environmental matters inside the Company and recording the impact of our work on the community, this report aids us in our search for business decisions that support all three parts of our Company Mission Statement: Economic, Product, and Social. In addition, the report is an important source of information about the Company for students, journalists, prospective employees, and other interested observers. In this way, it helps us in our quest to keep our values, our actions, and public perceptions in alignment (Benjerrys, 2008)."</p>
S. C. Johnson	<p>"It's nice to live next door to a family that cares about its neighbors, and at S. C. Johnson we are committed to being a good neighbor and contributing to the well-being of the countries and the communities where we conduct business. We have a wide variety of efforts to drive global development and growth that benefit the people around us and the planet we all share. From exceptional philanthropy and volunteerism to new business models that bring economic growth to the world's poorest communities, we're helping to create stronger communities for families around the globe" (Scjohnson, 2008).</p>

Figure 1.9



Environmentally Neutral Design (END) designs shoes with the goal of eliminating the surplus material needed to make a shoe such that it costs less to make and is lighter than other performance shoes on the market.

ideowl – [Carbon Neutral Shoes](#) – CC BY 2.0.



# Integrating Economic, Social, and Environmental Performance

Is there really a way to achieve a triple bottom line in a way that actually builds up all three facets of performance—economic, social, and environmental? Advocates of CSR understandably argue that this is possible and should be the way all firms are evaluated. Increasingly, evidence is mounting that attention to a triple bottom line is more than being “responsible” but instead just good business. Critics argue that CSR detracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; still, others argue that it is an attempt to preempt the role of governments as a watchdog over powerful multinational corporations.

While there is no systematic evidence supporting such a claim, a recent review of nearly 170 research studies on the relationship between CSR and firm performance reported that there appeared to be no negative shareholder effects of such practices. In fact, this report showed that there was a small positive relationship between CSR and shareholder returns (Margolis & Elfenbein, 2008). Similarly, companies that pay good wages and offer good benefits to attract and retain high-caliber employees “are not just being socially responsible; they are merely practicing good management” (Reich, 2007).

The financial benefits of social or environmental CSR initiatives vary by context. For example, environment-friendly strategies are much more complicated in the consumer products and services market. For example, cosmetics retailer The Body Shop and StarKist Seafood Company, a strategic business unit of Heinz Food, both

undertook environmental strategies but only the former succeeded. The Body Shop goes to great lengths to ensure that its business is ecologically sustainable (Bodyshop, 2008). It actively campaigns against human rights abuses and for animal and environmental protection and is one of the most respected firms in the world, despite its small size. Consumers pay premium prices for Body Shop products, ostensibly because they believe that it simply costs more to provide goods and services that are environmentally friendly. The Body Shop has been wildly successful.

StarKist, too, adopted a CSR approach, when, in 1990, it decided to purchase and sell exclusively dolphin-safe tuna. At the time, biologists thought that the dolphin population decline was a result of the thousands killed in the course of tuna harvests. However, consumers were unwilling to pay higher prices for StarKist's environmental product attributes. Moreover, since tuna were bought from commercial fishermen, this particular practice afforded the firm no protection from imitation by competitors. Finally, in terms of credibility, the members of the tuna industry had launched numerous unsuccessful campaigns in the past touting their interest in the environment, particularly the world's oceans. Thus, consumers did not perceive StarKist's efforts as sincerely "green."

You might argue that The Body Shop's customers are unusually price insensitive, hence the success of its environment-based strategy. However, individuals are willing to pay more for organic produce, so why not dolphin-safe tuna? One difference is that while the environment is a public good, organic produce produces both public and private benefits. For example, organic farming is better for the environment and pesticide-free produce is believed to be better for the health of the consumer. Dolphin-free tuna only has the public environmental benefits (i.e., preserve the dolphin population and oceans' ecosystems), not the private ones like personal health. It is true that personal satisfaction and benevolence are private benefits, too. However, consumers did not believe they

were getting their money's worth in this regard for StarKist tuna, whereas they do with The Body Shop's products.

Somewhere in our dialogue on CSR lies the idea of making the solution of an environmental or social problem the primary purpose of the organization. Cascade Asset Management (CAM), is a case in point (Cascade, 2008). CAM was created in April 1999, in Madison, Wisconsin, and traces its beginnings to the University of Wisconsin's Entrepreneurship program where the owners collaborated on developing and financing the initial business plan. CAM is a private, for-profit enterprise established to provide for the environmentally responsible disposition of computers and other electronics generated by businesses and institutions in Wisconsin. With their experience and relationships in surplus asset disposition and computer hardware maintenance, the founders were able to apply their skills and education to this new and developing industry.

Firms are willing to pay for CAM's services because the disposal of surplus personal computers (PCs) is recognized as risky and highly regulated, given the many toxic materials embedded in most components. CAM's story is also credible (whereas StarKist had trouble selling its CSR story). The company was one of the original signers of the "Electronic Recyclers Pledge of True Stewardship" (Computertakeback, 2008) Signers of the pledge are committed to the highest standards of environmental and economic sustainability in their industry and are expected to live out this commitment through their operations and partnerships. The basic principles of the pledge are as follows: no export of untested whole products or hazardous components or commodities (CRTs, circuit boards) to developing countries, no use of prison labor, adherence to an environmental and worker safety management system, provision of regular testing and audits to ensure compliance, and support efforts to encourage producers to make their products less toxic. CAM has grown rapidly and now serves over 500 business and institutional customers from across the country. While it is recognized as one of the national leaders in responsible, one-stop information technology (IT) asset disposal, its success is attracting new entrants

such as IBM, which view PC recycling as another profitable service they can offer their existing client base (IBM, 2008).

### *Key Takeaway*

Organizational performance can be viewed along three dimensions—financial, social, and environmental—collectively referred to as the triple bottom line, where the latter two dimensions are included in the definition of CSR. While there remains debate about whether organizations should consider environmental and social impacts when making business decisions, there is increasing pressure to include such CSR activities in what constitutes good principles of management. This pressure is based on arguments that range from CSR helps attract and retain the best and brightest employees, to showing that the firm is being responsive to market demands, to observations about how some environmental and social needs represent great entrepreneurial business opportunities in and of themselves.

### *Exercises*

1. Why is financial performance important for organizations?
2. What are some examples of financial performance metrics?

3. What dimensions of performance beyond financial are included in the triple bottom line?
4. How does CSR relate to the triple bottom line?
5. How are financial performance and CSR related?

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# 1.7 Performance of Individuals and Groups

## *Learning Objectives*

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

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

# Individual-Level Performance

Individual-level performance draws upon those things you have to do in your job, or in-role performance, and those things that add value but which aren't part of your formal job description. These "extras" are called extra-role performance or organizational citizenship behaviors (OCBs). At this point, it is probably simplest to consider an in-role performance as having productivity and quality dimensions associated with certain standards that you must meet to do your job. In contrast, OCBs can be understood as individual behaviors that are beneficial to the organization and are discretionary, not directly or explicitly recognized by the formal reward system (Organ, 1988).

In comparison to in-role performance, the spectrum of what constitutes extra-role performance, or OCBs, seems to be great and growing. In a recent review, for example, management researchers identified 30 potentially different forms of OCB, which they conveniently collapsed into seven common themes: (1) Helping Behavior, (2) Sportsmanship, (3) Organizational Loyalty, (4) Organizational Compliance, (5) Individual Initiative, (6) Civic Virtue, and (7) Self-Development (Podsakoff, et. al., 2000). Definitions and examples for these seven themes are summarized in [Table 1.2 "A current survey of organization citizenship behaviors"](#) (Organ, 1990; Graham, 1991; George & Jones, 1997; George & Jones, 1997; Graham, 1991; Organ, 1994; Moorman & Blakely, 1995).

# Table 1.2 A current survey of organization citizenship behaviors



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### **Altruism**

- Voluntary actions that help another person with a work problem.
- Instructing a new hire on how to use equipment, helping a coworker catch up with a backlog of work, fetching materials that a colleague needs and cannot procure on their own.

### **Interpersonal helping**

- Focuses on helping coworkers in their jobs when such help was needed.

### **Courtesy**

**Helping Behavior** (Taking on the forms of altruism, interpersonal helping, courtesy, peacemaking, and cheerleading.)

- Subsumes all of those foresightful gestures that help someone else prevent a problem.
- Touching base with people before committing to actions that will affect them, providing advance notice to someone who needs to know to schedule work.

### **Peacemaking**

- Actions that help to prevent, resolve, or mitigate unconstructive interpersonal conflict.

### **Cheerleading**

- The words and gestures of encouragement and reinforcement of coworkers.
  - Accomplishments and professional development.
-

<b>Sportsmanship</b>	A citizenlike posture of tolerating the inevitable inconveniences and impositions of work without whining and grievances.
<b>Organizational Loyalty</b>	Identification with and allegiance to organizational leaders and the organization as a whole, transcending the parochial interests of individuals, work groups, and departments. Representative behaviors include defending the organization against threats, contributing to its good reputation, and cooperating with others to serve the interests of the whole.
<b>Organizational Compliance (or Obedience)</b>	An orientation toward organizational structure, job descriptions, and personnel policies that recognizes and accepts the necessity and desirability of a rational structure of rules and regulations. Obedience may be demonstrated by a respect for rules and instructions, punctuality in attendance and task completion, and stewardship of organizational resources.
<b>Individual Initiative (or Conscientiousness)</b>	A pattern of going well beyond minimally required levels of attendance, punctuality, housekeeping, conserving resources, and related matters of internal maintenance.
<b>Civic Virtue</b>	Responsible, constructive involvement in the political process of the organization, including not just expressing opinions but reading one's mail, attending meetings, and keeping abreast of larger issues involving the organization.
<b>Self-Development</b>	Includes all the steps that workers take to voluntarily improve their knowledge, skills, and abilities so as to be better able to contribute to their organizations. Seeking out and taking advantage of advanced training courses, keeping abreast of the latest developments in one's field and area, or even learning a new set of skills so as to expand the range of one's contributions to an organization.

As you can imagine, principles of management are likely to be very concerned with individuals' in-role performance. At the same time, just a quick glance through [Table 1.2 “A current survey of organization citizenship behaviors”](#) should suggest that those principles should help you better manage OCBs as well.

# Group-Level Performance

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

Figure 1.10 A Contemporary Management Team



Why do we say *group* instead of *team*? A collection of people is not a team, though they may learn to function in that way. A team is a cohesive coalition of people working together to achieve the team agenda (i.e., teamwork). Being on a team is not equal to total subordination of personal agendas, but it does require a commitment to the vision and involves each individual directly in accomplishing the team's objective. Teams differ from other types of groups in that members are focused on a joint goal or product, such as a presentation, completing in-class exercises, discussing a topic, writing a report, or creating a new design or prototype. Moreover, teams also tend to be defined by their relatively smaller size. For example, according to one definition, "A team is a *small* number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they are mutually accountable" (Katzenback & Smith, 1993)

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

# Compatibility of Individual and Group Performance

As a manager, you will need to understand the compatibility of individual and group performance, typically with respect to goals and incentives. What does this mean? Looking at goals first, there should be compatibility between individual and group goals. For example, do the individuals' goals contribute to the achievement of the group goal or are they contradictory? Incentives also need to be aligned between individuals and groups. A disconnect between these is most likely when individuals are too far insulated from the external environment or rewarded for action that is not consistent with the goal. For example, individuals may be seeking to perfect a certain technology and, in doing so, delay its release to customers, when customers would have been satisfied with the current solution and put a great priority on its timely delivery. Finally, firms need to be careful to match their goals with their reward structures. For example, if the organization's goal is to increase group performance but the firm's performance appraisal process rewards individual employee productivity, then the firm is unlikely to create a strong team culture.

## *Key Takeaway*

This section helped you understand individual and group performance and suggested how they might roll up into organizational performance. Principles of management incorporate two key facets of individual performance: in-

role and OCB (or extra-role) performance. Group performance, in turn, was shown to be a function of how well individuals achieved a combination of individual and group goals. A team is a type of group that is relatively small, and members are willing and able to subordinate individual goals and objectives to those of the larger group.

## Exercises

1. What is in-role performance?
2. What is extra-role performance?
3. What is the relationship between extra-role performance and OCBs?
4. What differentiates a team from a group?
5. When might it be important to understand the implications of individual performance for group performance?

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# 1.8 Your Principles of Management Survivor's Guide

## *Learning Objectives*

1. Know your learning style.
2. Know how to match your style to the circumstances.
3. Use the gauge-discover-reflect framework.

Principles of management courses typically combine knowledge about skills and the development and application of those skills themselves. For these reasons, it is helpful for you to develop your own strategy for learning about and developing management skills. The first part of this strategy should be based on your own disposition toward learning. The second part of this strategy should follow some form of the gauge-discover-reflect process that we outline at the end of this section.



# Assess Your Learning Style

You can assess your learning style in a number of ways. At a very general level, you can assess your style intuitively (see “What Is Your Intuition about Your Learning Style?”); however, we suggest that you use a survey instrument like the Learning Style Index (LSI), the output from which you can then readily compare with your intuition. In this section, we discuss the dimensions of the LSI that you can complete easily and quickly online (Soloman & Felder, 2008). The survey will reveal whether your learning style is active or reflective, sensory or intuitive, visual or verbal, and sequential or global.<sup>1</sup>

## What Is Your Intuition About Your Learning Style?

Your learning style may be defined in large part by the answers to four questions:

1. How do you prefer to process information: actively—through engagement in physical activity or discussion? Or reflectively—through introspection?
2. What type of information do you preferentially perceive: sensory (external)—sights, sounds, physical sensations? Or intuitive (internal)—possibilities, insights, hunches?
3. Through which sensory channel is external information most effectively perceived: visual—pictures, diagrams, graphs, demonstrations? Or verbal—words, sounds? (Other sensory channels like touch, taste, and smell are relatively untapped in most educational environments, and are not considered here.)
4. How do you progress toward understanding: sequentially—in continual steps? Or globally—in large jumps, holistically?

TRY IT OUT HERE: <http://www.engr.ncsu.edu/learningstyles/ilsweb.html>

# Active and Reflective Learners

Everybody is active sometimes and reflective sometimes. Your preference for one category or the other may be strong, moderate, or mild. A balance of the two is desirable. If you always act before reflecting, you can jump into things prematurely and get into trouble, while if you spend too much time reflecting, you may never get anything done.

“Let’s try it out and see how it works” is an active learner’s phrase; “Let’s think it through first” is the reflective learner’s response. If you are an active learner, you tend to retain and understand information best by doing something active with it—discussing it, applying it, or explaining it to others. Reflective learners prefer to think about it quietly first.

Sitting through lectures without getting to do anything physical but take notes is hard for both learning types but particularly hard for active learners. Active learners tend to enjoy group work more than reflective learners, who prefer working alone.

# Sensing and Intuitive Learners

Everybody is sensing sometimes and intuitive sometimes. Here too, your preference for one or the other may be strong, moderate, or mild. To be effective as a learner and problem solver, you need to be able to function both ways. If you overemphasize intuition, you may miss important details or make careless mistakes in calculations or hands-on work; if you overemphasize sensing, you may rely too much on memorization and familiar methods and not concentrate enough on understanding and innovative thinking.

Even if you need both, which one best reflects you? Sensors often like solving problems by well-established methods and dislike complications and surprises; intuitors like innovation and dislike repetition. Sensors are more likely than intuitors to resent being tested on material that has not been explicitly covered in class. Sensing learners tend to like learning facts; intuitive learners often prefer discovering possibilities and relationships.

Sensors tend to be patient with details and good at memorizing facts and doing hands-on (laboratory) work; intuitors may be better at grasping new concepts and are often more comfortable than sensors with abstractions and mathematical formulations. Sensors tend to be more practical and careful than intuitors; intuitors tend to work faster and to be more innovative than sensors.

Sensors don't like courses that have no apparent connection to the real world (so if you are sensor, you should love principles of management!); intuitors don't like "plug-and-chug" courses that involve a lot of memorization and routine calculations.

# Visual and Verbal Learners

In most college classes, very little visual information is presented: students mainly listen to lectures and read material written on whiteboards, in textbooks, and on handouts. Unfortunately, most of us are visual learners, which means that we typically do not absorb nearly as much information as we would if more visual presentation were used in class. Effective learners are capable of processing information presented either visually or verbally.

Visual learners remember best what they see—pictures, diagrams, flowcharts, time lines, films, and demonstrations. Verbal learners get more out of words—written and spoken explanations. Everyone learns more when information is presented both visually and verbally.

## Sequential and Global Learners

Sequential learners tend to follow logical, stepwise paths in finding solutions; global learners may be able to solve complex problems quickly or put things together in novel ways once they have grasped the big picture, but they may have difficulty explaining how they did it. Sequential learners tend to gain understanding in linear steps, with each step following logically from the previous one. Global

learners tend to learn in large jumps, absorbing material almost randomly without seeing connections, and then suddenly “getting it.”

Many people who read this description may conclude incorrectly that they are global since everyone has experienced bewilderment followed by a sudden flash of understanding. What makes you global or not is what happens before the light bulb goes on. Sequential learners may not fully understand the material, but they can nevertheless do something with it (like solve the homework problems or pass the test) since the pieces they have absorbed are logically connected. Strongly global learners who lack good sequential thinking abilities, however, may have serious difficulties until they have the big picture. Even after they have it, they may be fuzzy about the details of the subject, while sequential learners may know a lot about specific aspects of a subject but may have trouble relating them to different aspects of the same subject or to different subjects.

## Adapt Your Style

OK, so you've assessed your learning style. What should you do now? You can apply this valuable and important information about yourself to how you approach your principles of management course and the larger P-O-L-C framework.

# Active Learners

If you act before you think, you are apt to make hasty and potentially ill-informed judgments. You need to concentrate on summarizing situations and taking time to sit by yourself to digest information you have been given before jumping in and discussing it with others.

If you are an active learner in a class that allows little or no class time for discussion or problem-solving activities, you should try to compensate for these lacks when you study. Study in a group in which the members take turns explaining different topics to one another. Work with others to guess what you will be asked on the next test, and figure out how you will answer. You will always retain information better if you find ways to do something with it.

# Reflective Learners

If you think too much, you risk doing nothing—ever. There comes a time when a decision has to be made or an action taken. Involve yourself in group decision making whenever possible, and try to apply the information you have in as practical a manner as possible.

If you are a reflective learner in a class that allows little or no class time for thinking about new information, you should try to compensate for this lack when you study. Don't simply read or memorize the material; stop periodically to review what you have read and to think of possible questions or applications. You might

find it helpful to write short summaries of readings or class notes in your own words. Doing so may take extra time but will enable you to retain the material more effectively.

## Sensory Learners

If you rely too much on sensing, you tend to prefer what is familiar and concentrate on facts you know instead of being innovative and adapting to new situations. Seek out opportunities to learn theoretical information and then bring in facts to support or negate these theories.

Sensors remember and understand information best if they can see how it connects to the real world. If you are in a class where most of the material is abstract and theoretical, you may have difficulty. Ask your instructor for specific examples of concepts and procedures, and find out how the concepts apply in practice. If the teacher does not provide enough specifics, try to find some in your course text or other references or by brainstorming with friends or classmates.



# Intuitive Learners

If you rely too much on intuition, you risk missing important details, which can lead to poor decision making and problem solving. Force yourself to learn facts or memorize data that will help you defend or criticize a theory or procedure you are working with. You may need to slow down and look at detail you would otherwise typically skim.

Many college lecture classes are aimed at intuitors. However, if you are an intuitor and you happen to be in a class that deals primarily with memorization and rote substitution in formulas, you may have trouble with boredom. Ask your instructor for interpretations or theories that link the facts, or try to find the connections yourself. You may also be prone to careless mistakes on tests because you are impatient with details and don't like repetition (as in checking your completed solutions). Take time to read the entire question before you start answering, and be sure to check your results.

# Visual Learners

If you concentrate more on pictorial or graphical information than on words, you put yourself at a distinct disadvantage because verbal and written information is still the main preferred choice for delivery of information. Practice your note taking, and seek out opportunities to explain information to others using words.

If you are a visual learner, try to find diagrams, sketches, schematics, photographs, flowcharts, or any other visual representation of course material that is predominantly verbal. Ask your instructor, consult reference books, and see whether any videotapes or CD-ROM displays of the course material are available. Prepare a concept map by listing key points, enclosing them in boxes or circles, and drawing lines with arrows between concepts to show connections. Color-code your notes with a highlighter so that everything relating to one topic is the same color.

## Verbal Learners

As with visual learners, look for opportunities to learn through audiovisual presentations (such as CD-ROM and Webcasts). When making notes, group information according to concepts, and then create visual links with arrows going to and from them. Take every opportunity you can to create charts, tables, and diagrams.

Write summaries or outlines of course material in your own words. Working in groups can be particularly effective: you gain understanding of material by hearing classmates' explanations, and you learn even more when you do the explaining.

# Sequential Learners

When you break things down into small components you are often able to dive right into problem solving. This seems to be advantageous but can often be unproductive. Force yourself to slow down and understand why you are doing something and how it is connected to the overall purpose or objective. Ask yourself how your actions are going to help you in the long run. If you can't think of a practical application for what you are doing, then stop and do some more “big picture” thinking.

Most college courses are taught in a sequential manner. However, if you are a sequential learner and you have an instructor who jumps around from topic to topic or skips steps, you may have difficulty following and remembering. Ask the instructor to fill in the skipped steps, or fill them in yourself by consulting references. When you are studying, take the time to outline the lecture material for yourself in logical order. In the long run, doing so will save you time. You might also try to strengthen your global-thinking skills by relating each new topic you study to things you already know. The more you can do so, the deeper your understanding of the topic is likely to be.

# Global Learners

If grasping the big picture is easy for you, then you can be at risk of

wanting to run before you can walk. You see what is needed but may not take the time to learn how best to accomplish it. Take the time to ask for explanations, and force yourself to complete all problem-solving steps before coming to a conclusion or making a decision. If you can't explain what you have done and why, then you may have missed critical details.

If you are a global learner, it can be helpful for you to realize that you need the big picture of a subject before you can master details. If your instructor plunges directly into new topics without bothering to explain how they relate to what you already know, it can cause problems for you. Fortunately, there are steps you can take that may help you get the big picture more rapidly. Before you begin to study the first section of a chapter in a text, skim through the entire chapter to get an overview. Doing so may be time consuming initially, but it may save you from going over and over individual parts later. Instead of spending a short time on every subject every night, you might find it more productive to immerse yourself in individual subjects for large blocks. Try to relate the subject to things you already know, either by asking the instructor to help you see connections or by consulting references. Above all, don't lose faith in yourself; you will eventually understand the new material, and understanding how it connects to other topics and disciplines may enable you to apply it in ways that most sequential thinkers would never dream of.

## Gauge-Discover-Reflect

You have already begun to apply the spirit of what we recommend in

this third part of the development of your principles of management survival kit, by gauging your learning style. The three essential components are (1) gauge—take stock of your knowledge and capabilities about a topic; (2) discover—learn enough about a topic so that you can set specific development goals on which you can apply and practice, and later gauge again your progress toward your set goals; and (3) reflect—step back and look at the ways you have achieved your goals, take the opportunity to set new ones, and chronicle this experience and thought process in a daily journal.

## Gauge

It is always good to start any self-development process by getting some sense of where you are. That is why we commence with the *gauge* stage. For learning and developing in the area of principles of management, such knowledge is essential. By analogy, let's say you want to take a road trip out of town. Even if you have a map and a compass, it still is pretty important to know exactly where you are starting on the map!

Your instructor will likely introduce you to a number of different types of management assessment tools, and you should experiment with them to see how they work and the degree to which results resonate with your intuition. A word of caution here—just because some assessment results may clash with your intuition or self-image, do not immediately assume that they are wrong. Instead, use them as an opportunity and motivation for further probing (this can fuel your work in the discovery and reflect stages).

The obvious value of commencing your learning process with

some form of assessment is that you have a clear starting point, in terms of knowledge. This also means that you now have a basis for comparing your achievement to any relevant specific goals that you set. Less obvious perhaps is the experience you will gain with principles of management skill assessments in general. More and more organizations use some form of assessment in the recruiting, human resources development, and yes, even promotion processes. Your experience with these different surveys will give you the confidence to take other surveys and the knowledge needed to show organizations that you are aware of your areas of strength and development opportunities.

## Discover

The *discovery* stage of your principles of management survival kit has four related facets: (1) learn, (2) set goals, (3) apply, and (4) practice. Let us look at each one in turn.

# Learn

You have probably learned a little about a certain subject just by virtue of gauging your depth in it. In some cases, you might even have read up on the subject a lot to accurately gauge where you were strong or weak. There is not an existing survey for every subject, and it is beneficial to learn how you might gauge this or that area of interest.

The learning facet essentially asks that you build your knowledge base about a particular topic. As you know, learning has multiple facets, from simply mastering facts and definitions, to developing knowledge of how you might apply that knowledge. You will typically want to start with some mastery over facts and definitions and then build your knowledge base to a more strategic level—that is, be able to understand when, where, and how you might use those definitions and facts in principles of management.

## Set SMART Goals

The combination of gauging and learning about a topic should permit you to set some goals related to your focal topic. For example, you want to develop better team communication skills or better understand change management. While your goals should reflect the intersection of your own needs and the subject, we do know that effective goals satisfy certain characteristics. These

characteristics—specific, measurable, aggressive, realistic, and time bound—yield the acronym SMART.<sup>2</sup> Here is how to tell if your goals are SMART goals.

#### Specific

Specific goals are more likely to be achieved than a general goal. To set a specific goal, you must answer the six “W” questions:

- Who: Who is involved?
- What: What do I want to accomplish?
- Where: At what location?
- When: In what time frame?
- Which: What are the requirements and constraints?
- Why: What specific reasons, purpose, or benefits are there to the accomplishment of the goal (Topachievement, 2008)?

EXAMPLE: A general goal would be, “Get a job as a retail store manager.” But a specific goal would say, “Identify my development needs in the next three weeks to become a retail store manager.” “Are You Ready to Be a Great Retail Store Manager?” provides you with an introductory list of survey questions that might help you accelerate your progress on this particular goal set.



Are You Ready to Be a



# Great Retail Store Manager?

The service sector employs more than 80% of the U.S. workforce, and the position of retail store manager is in increasing demand. Have you already developed the skills to be a great store manager? Score yourself on each of these 10 people skills. How close did you get to 100? Identify two areas to develop, and then move on to two more areas once that goal is achieved.

1. “I challenge employees to set new performance goals.”  
Never: 1 Seldom: 3 Often: 5 Regularly: 10
2. “I coach employees to resolve performance problems.”  
Never: 1 Seldom: 3 Often: 5 Regularly: 10
3. “I encourage employees to contribute new ideas.”  
Never: 1 Seldom: 3 Often: 5 Regularly: 10
4. “I take an interest in my employees’ personal lives.”

Never: 1 Seldom: 3 Often: 5 Regularly: 10

5. “I delegate well.”

Never: 1 Seldom: 3 Often: 5 Regularly: 10

6. “I communicate my priorities and directions clearly.”

Never: 1 Seldom: 3 Often: 5 Regularly: 10

7. “I resolve conflicts in a productive way.”

Never: 1 Seldom: 3 Often: 5 Regularly: 10

8. “I behave in a professional way at work.”

Never: 1 Seldom: 3 Often: 5 Regularly: 10

9. “I inspire my employees with a dynamic personality.”

Never: 1 Seldom: 3 Often: 5 Regularly: 10

10. “I am a good listener.”

Never: 1 Seldom: 3 Often: 5 Regularly: 10

### Measurable

When goals are specific, performance tends to be higher (Tubbs, 1986). Why? If goals are not specific and measurable, how would you know whether you have reached the goal? Any performance level becomes acceptable. For the same reason, telling someone, “Do your best” is not an effective goal because it is not measurable and does not give the person a specific target.

### Aggressive

This may sound counterintuitive, but effective goals are difficult, not easy. Aggressive goals are also called stretch goals. Why are

effective goals aggressive? Easy goals do not provide a challenge. When goals are aggressive and when they require people to work harder or smarter, performance tends to be dramatically higher.

#### Realistic

While goals should be difficult, they should also be based in reality. In other words, if a goal is viewed as impossible to reach, it does not have any motivational value. Only you can decide which goal is realistic and which is impossible to achieve; just be sure that the goal you set, while it is aggressive, remains grounded in reality.

#### Timely

The goal should contain a statement regarding when the proposed performance level will be reached. This way, it provides the person with a sense of urgency.

## Apply and Practice

Your knowledge of the subject, plus your SMART goals, give you an opportunity to apply and test your knowledge. Going back to our road-trip analogy, gauging gives you a starting point, learning gives you a road map and compass, and goals give you a target destination. Practice, in turn, simply means some repetition of the application process. Your objective here should be to apply and practice a subject long enough that, when you gauge it again, you are likely to see some change or progress.

# Reflect

This final stage has two parts: (1) gauge again and (2) record.

## Gauge Again

As suggested under “Apply and Practice,” you will want to gauge your progress. Have you become more innovative? Do you better communicate in teams? Do you have a better understanding of other key principles of management?

## Record

Many people might stop at the gauge again point, but they would be missing out on an incredibly valuable opportunity. Specifically, look at what you have learned and achieved regarding your goals, and chronicle your progress in some form of a journal (Bromley, 1993). A

journal may be a required component of a principles of management course, so there may be extrinsic as well as intrinsic motives for starting to keep a journal.

There are also various exercises that you can partake in through your journaling. These allow you to challenge yourself and think more creatively and deeply. An effective journal entry should be written with clear images and feelings. You should aim to include your reactions along with the facts or events related to your developmental goals. The experience of certain experiments may not necessarily be what you thought it would be, and this is what is important to capture. You are bound to feel turmoil in various moments, and these feelings are excellent fodder for journaling. Journaling allows you to vent and understand emotions. These types of entries can be effective at giving yourself a more rounded perspective on past events.

In addition to the goals you are evaluating, there are numerous things to write about in a journal. You can reflect on the day, the week, or even the year. You can reflect on events that you have been a part of or people you have met. Look for conclusions that you may have made or any conflicts that you faced. Most important, write about how you felt. This will allow you to examine your own emotional responses. You may find that you need to make a personal action or response to those conflicts. The conclusions that you make from your journal entries are the ingredients to self-growth. Facing those conflicts may also change your life for the better, as you are able to grow as a person.

You should also always go back and review what you have written. Think about each journal entry you have made and what it means. This is the true aspect of self-growth through journaling. It is easy to recognize changes in yourself through your journaling. You may find that you had a disturbing idea one day, but the next your attitude was much better. You may also find that your attitude grows and improves day by day. This is what makes journaling a true self-growth tool.

Journaling may be inexpensive, but it does require time and

commitment. The time factor itself can be small, only about 10 minutes a day or maybe 30 minutes a week, depending on how you would like to summarize your life. You do, however, have to be motivated to write on a regular basis. Even if you do not have a lot of time to write, you will still be able to enjoy the large amount of personal growth that is available through journaling. Perhaps this suggests that your first goal set relates to time set aside for journaling.

### *Key Takeaway*

You have seen how different individuals approach the learning process and that an understanding of these differences can help you with your objectives related to principles of management. Beyond this general understanding of your own learning style, you also have an opportunity to put together your own survival kit for this course. Your kit will have answers and resources based on the gauge-discover-reflect framework. The development of SMART goals are particularly important in the successful application of the framework.

### *Exercises*

1. What is your learning style?
2. How does your style compare with your prior intuition?

3. What target learning issue could you use to experiment with the gauge-discover-reflect framework?
4. What does the acronym SMART refer to, in the context of goal setting?
5. What SMART goals could you apply to your target learning issue?

<sup>1</sup>Felder, Richard K. and Linda K. Silverman. In addition to their research, there is an online instrument used to assess preferences on four dimensions (active or reflective, sensing or intuitive, visual or verbal, and sequential or global) of a learning style model formulated by Felder and Soloman of North Carolina State University. The Learning Styles Index (LSI) may be used at no cost for noncommercial purposes by individuals who wish to determine their own learning style profile and by educators who wish to use it for teaching, advising, or research. See R. M. Felder, and R. Brent, "Understanding Student Differences," *Journal of Engineering Education* 94, no. 1 (2005) : 57–72, for an exploration of differences in student learning styles, approaches to learning (deep, surface, and strategic), and levels of intellectual development, with recommended teaching practices to address all three categories. R. M. Felder, and J. E. Spurlin, "Applications, Reliability, and Validity of the Index of Learning Styles," *Journal of Engineering Education* 21, no. 1 (2005): 103–12, provides a validation study of the LSI. Also see T. A. Litzinger, S. H. Lee, J. C. Wise, and R. M. Felder, "A Psychometric Study of the Index of Learning Styles," *Journal of Engineering Education* 96, no. 4 (2007): 309–19.

<sup>2</sup>In his seminal 1954 work, *The Practice of Management* (New York: Collins), Peter Drucker coined the usage of the acronym for SMART objectives while discussing objective-based management.

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PART II

CHAPTER 2:  
COMMUNICATION IN  
ORGANIZATIONS

2.1 Communication in Organizations

2.2 Case in Point: Edward Jones Communicates Caring

2.3 Understanding Communication

2.4 Communication Barriers

2.5 Different Types of Communication

2.6 Communication Channels

2.7 Developing Your Personal Communication Skills



## 2.1 Communication in Organizations

Figure 2.1



A sender's choice of communication channel affects the quality of what is actually understood by the receiver.

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## *What's in It for Me?*

Reading this chapter will help you do the following:

1. Define communication and understand the communication process.
2. Understand and overcome barriers to effective communication.
3. Compare and contrast different types of communication.
4. Compare and contrast different communication channels.
5. Develop your own communication skills.

Figure 2.2 The P-O-L-C Framework

Planning	Organizing	Leading	Controlling
<ol style="list-style-type: none"><li>1. Vision &amp; Mission</li><li>2. Strategizing</li><li>3. Goals &amp; Objectives</li></ol>	<ol style="list-style-type: none"><li>1. Organization Design</li><li>2. Culture</li><li>3. Social Networks</li></ol>	<ol style="list-style-type: none"><li>1. Leadership</li><li>2. Decision Making</li><li>3. Communications</li><li>4. Groups/Teams</li><li>5. Motivation</li></ol>	<ol style="list-style-type: none"><li>1. Systems/Processes</li><li>2. Strategic Human Resources</li></ol>

# 2.2 Case in Point: Edward Jones Communicates Caring

Figure 2.3



stevepb - [Pixabay](#) - CC0 public domain.

Because of the economic turmoil that most financial institutions find themselves in today, it might come as a surprise that an individual investment company came in at number 2 on *Fortune* magazine's "100 Best Companies to Work For" list in 2010, behind software giant SAS Institute Inc. Edward Jones Investments (a limited partnership company) was originally founded in St. Louis, Missouri, where its headquarters remain today. With more than 10,000 offices across the United States and Canada, they are able to serve nearly 7 million investors. This is the 10th year Edward Jones has made the Best Companies list. In addition, Edward Jones ranked highest with client satisfaction among full-service investment firms, according to an annual survey released by J. D. Power and Associates in 2009. How has Edward Jones maintained this favorable reputation in the eyes of both its employees and its customers?

It begins with the perks offered, including profit sharing and telecommuting. But if you ask the company's CEO, Tim Kirley, he will likely tell you that it goes beyond the financial incentives, and at the heart of it is the culture of honest communication that he adamantly promotes. Kirley works with senior managers and team members in what makes up an open floor plan and always tries to maintain his approachability. Examples of this include direct communication, letters to staff and video, and Internet-posted talks. In addition, regular meetings are held to celebrate achievements and reinforce the firm's ethos. Staff surveys are frequently administered and feedback is widely taken into consideration so that the 10,000 employees feel heard and respected.

According to *Fortune*'s managing editor, Hank Gilman,

“The most important considerations for this year’s list were hiring and the ways in which companies are helping their employees weather the recession.” Edward Jones was able to persevere through the trauma of the recent financial crisis with no layoffs and an 8% one-year job growth. While a salary freeze was enacted, profit sharing continued. Kirley insists that the best approach to the recent economic downturn is to remain honest with his employees even when the news he is delivering is not what they want to hear.

Edward Jones was established in 1922 by Edward D. Jones Sr., and long ago, the company recognized the importance of a satisfied workforce and how that has the ability to translate into customer satisfaction and long-term growth. The company’s internal policy of open communication seems to carry over to how advisors value their relationship with individual customers. Investors are most likely to contact their advisor by directly visiting them at a local branch or by picking up the phone and calling them. Edward Jones’s managing partner, Jim Weddle, explains it best himself: “We are able to stay focused on the long-term because we are a partnership and we know who we are and what we do. When you respect the people who work here, you take care of them—not just in the good times, but in the difficult times as well.”

Case written based on information from 100 best companies to work for. (2010, February 8). *Fortune*. Retrieved February 2, 2010, from [http://money.cnn.com/magazines/fortune/bestcompanies/2010/full\\_list](http://money.cnn.com/magazines/fortune/bestcompanies/2010/full_list); St. Louis firms make *Fortune*’s best workplaces. (2009, January 22). *St. Louis Business Journal*. Retrieved February 3, 2010,

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## Discussion Questions

1. Communication is a key part of the leading facet of the P-O-L-C framework. What other things could Edward Jones do to increase its effectiveness in the area of communications?
2. As an organization, what qualities do you think Edward Jones looks for when hiring new financial advisors? How do you think that affects its culture over time?
3. With its success in North America, why do you think Edward Jones has not expanded across the Pacific or Atlantic Oceans?
4. How has technology enabled Edward Jones to become more effective at communicating with its employees and customers?



5. What types of customer service policies do think Edward Jones has in place? How do these relate to its culture over time?

## 2.3 Understanding Communication

### *Learning Objectives*

1. Define communication.
2. Understand the communication process.

**Communication** supports each of a manager's P-O-L-C functions. The ability to effectively communicate is a necessary condition for successfully planning, organizing, leading, and controlling. Communication is vital to organizations—it's how we coordinate actions and achieve goals. It is defined in the *Merriam-Webster's* dictionary as "a process by which information is exchanged between individuals through a common system of symbols, signs, or behavior (Merriam-Webster, 2008)." We know that 50%–90% of a manager's time is spent communicating (Schnake, et. al., 1990) and that communication ability is related to a manager's performance (Penley, et. al., 1991). In most work environments, a miscommunication is an annoyance—it can interrupt workflow by causing delays and interpersonal strife. And in some work arenas, like operating rooms and airplane cockpits, communication can be a matter of life and death.

So, just how prevalent is the problem of miscommunication in the workplace? You may be surprised to learn that the relationship between miscommunication and negative outcomes is strong. A recent NASA study suggests that deficient interpersonal

communication was a causal factor in approximately 70%–80% of aviation accidents over a 20-year period (Baron, 2004).

Poor communication can also lead to lawsuits. For example, you might think that malpractice suits are filed against doctors based on the outcome of their treatments alone. But a 1997 study of malpractice suits found that a primary influence on whether a doctor is sued is that doctor's communication style. While the combination of a bad outcome and patient unhappiness can quickly lead to litigation, a warm, personal communication style leads to greater patient satisfaction. And satisfied patients are less likely to sue.<sup>1</sup>

## Figure 2.4



Success on complicated missions at NASA depends on strong communication.

Wikimedia Commons – [Orion briefing model](#) – public domain.

For leaders and organizations, poor communication costs money and wastes time. One study found that 14% of each workweek is wasted on poor communication (Armour, 1998). In contrast, effective communication is an asset for organizations and individuals alike. Effective communication skills, for example, are an asset for job seekers. A recent study of recruiters at 85 business schools ranked communication and interpersonal skills as the highest skills they were looking for, with 89% of the recruiters saying they were important (Alsop, 2006). Good communication can also help a company retain its star employees. Surveys find that when employees think their organizations do a good job of

keeping them informed about matters that affect them and they have ready access to the information they need to do their jobs, they are more satisfied with their employers (Mercer, 2003). So, can good communication increase a company's market value? The answer seems to be yes. "When you foster ongoing communications internally, you will have more satisfied employees who will be better equipped to effectively communicate with your customers," says Susan Meisinger, President/CEO of the Society for Human Resource Management, citing research findings that for organizations that are able to improve their communication integrity, their market value increases by as much as 7.1% (Meisinger, 2003). We will explore the definition and benefits of effective communication in our next section.

## The Communication Process

### Figure 2.5



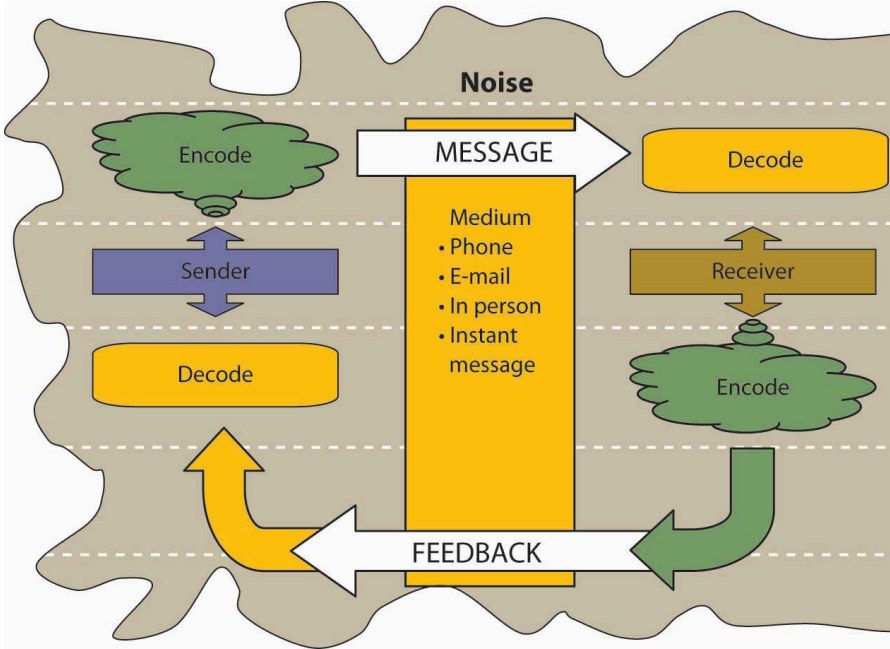
Lee Iacocca, past president and CEO of Chrysler until his retirement in 1992, said, “You can have brilliant ideas, but if you can’t get them across, your ideas won’t get you anywhere.”

[Lee Iacocca at the White House in 1993](#) – public domain.

Communication fulfills three main functions within an organization: (1) transmitting information, (2) coordinating effort, and (3) sharing emotions and feelings. All these functions are vital to a successful organization. Transmitting information is vital to an organization’s ability to function. Coordinating effort within the organization helps people work toward the same goals. Sharing emotions and feelings bonds teams and unites people in times of celebration and crisis. Effective communication helps people grasp issues, build rapport with coworkers, and achieve consensus. So, how can we communicate effectively? The first step is to understand the communication process.

We all exchange information with others countless times a day, by phone, e-mail, printed word, and of course, in person. Let's take a moment to see how a typical communication works using the Process Model of Communication as a guide.

Figure 2.6 The Process Model of Communication



A **Sender**, such as a boss, coworker, or customer, originates the Message with a thought. For example, the boss's thought could be: "Get more printer toner cartridges!"

The Sender encodes the Message, translating the idea into words.

The boss may communicate this thought by saying, “Hey you guys, *we need to order more printer toner cartridges.*”

The medium of this encoded Message may be spoken words, written words, or signs.

The receiver is the person who receives the Message.

The Receiver decodes the Message by assigning meaning to the words.

In this example, our Receiver, Bill, has a to-do list a mile long. “*The boss must know how much work I already have.*” the Receiver thinks. Bill’s mind translates his boss’s Message as, “*Could you order some printer toner cartridges, in addition to everything else I asked you to do this week...if you can find the time?*”

The meaning that the Receiver assigns may not be the meaning that the Sender intended because of such factors as noise. Noise is anything that interferes with or distorts the Message being transformed. Noise can be external in the environment (such as distractions) or it can be within the Receiver. For example, the Receiver may be highly nervous and unable to pay attention to the Message. Noise can even occur within the Sender: the Sender may be unwilling to take the time to convey an accurate Message or the words she chooses can be ambiguous and prone to misinterpretation.

Picture the next scene. The place: a staff meeting. The time: a few days later. The boss believes her Message has been received.

“*Are the printer toner cartridges here yet?*” she asks.

“*You never said it was a rush job!*” the Receiver protests.

“But!”

“But!”

Miscommunications like these happen in the workplace every day. We’ve seen that miscommunication does occur in the workplace. But how does a miscommunication happen? It helps to think of the communication process. The series of arrows pointing the way from the Sender to the Receiver and back again can, and often do, fall short of their target.



## *Key Takeaway*

Communication is vital to organizations. Poor communication is prevalent and can have serious repercussions. Communication fulfills three functions within organizations: transmitting information, coordinating, and sharing emotions and feelings. Noise can disrupt or distort communication.

## *Exercises*

1. Where have you seen the communication process break down—at work? At school? At home?
2. Explain how miscommunication might be related to an accident at work.
3. Give an example of noise during the communication process.

<sup>1</sup>Communications skills cut malpractice risk—study reveals most important reason that patients decide to file malpractice suits is because of poor communication by physicians and not medical errors. (1997, October). *USA Today*.

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## 2.4 Communication Barriers

### *Learning Objectives*

1. Understand different ways that the communication process can be sidetracked.
2. Understand the problem of poor listening and how to promote active listening.

## Barriers to Effective Communication

Communicating can be more of a challenge than you think, when you realize the many things that can stand in the way of effective communication. These include filtering, selective perception, information overload, emotional disconnects, lack of source familiarity or credibility, workplace gossip, semantics, gender differences, differences in meaning between Sender and Receiver, and biased language. Let's examine each of these barriers.

# Filtering

Filtering is the distortion or withholding of information to manage a person's reactions. Some examples of filtering include a manager who keeps her division's poor sales figures from her boss, the vice president, fearing that the bad news will make him angry. The old saying, "Don't shoot the messenger!" illustrates the tendency of Receivers (in this case, the vice president) to vent their negative response to unwanted Messages on the Sender. A gatekeeper (the vice president's assistant, perhaps) who doesn't pass along a complete Message is also filtering. The vice president may delete the e-mail announcing the quarter's sales figures before reading it, blocking the Message before it arrives.

As you can see, filtering prevents members of an organization from getting a complete picture of the way things are. To maximize your chances of sending and receiving effective communications, it's helpful to deliver a Message in multiple ways and to seek information from multiple sources. In this way, the effect of any one person's filtering the Message will be diminished.

Since people tend to filter bad news more during upward communication, it is also helpful to remember that those below you in an organization may be wary of sharing bad news. One way to defuse the tendency to filter is to reward employees who clearly convey information upward, regardless of whether the news is good and bad.

Here are some of the criteria that individuals may use when deciding whether to filter a Message or pass it on:

- Past experience: Was the Sender rewarded for passing along news of this kind in the past, or was she criticized?
- Knowledge, perception of the speaker: Has the Receiver's direct superior made it clear that "no news is good news?"
- Emotional state, involvement with the topic, level of attention:

Does the Sender's fear of failure or criticism prevent him from conveying the Message? Is the topic within his realm of expertise, increasing his confidence in his ability to decode it, or is he out of his comfort zone when it comes to evaluating the Message's significance? Are personal concerns impacting his ability to judge the Message's value?

Once again, filtering can lead to miscommunications in business. Each listener translates the Message into his or her own words, creating his or her own version of what was said (Alessandra, 1993).

## Selective Perception

Selective perception refers to filtering what we see and hear to suit our own needs. This process is often unconscious. Small things can command our attention when we're visiting a new place—a new city or a new company. Over time, however, we begin to make assumptions about the way things are on the basis of our past experience. Often, much of this process is unconscious. “We simply are bombarded with too much stimuli every day to pay equal attention to everything so we pick and choose according to our own needs (Pope, 2008).” Selective perception is a time-saver, a necessary tool in a complex culture. But it can also lead to mistakes.

Think back to the earlier example conversation between Bill, who was asked to order more toner cartridges, and his boss. Since Bill found his boss's to-do list to be unreasonably demanding, he assumed the request could wait. (How else could he do everything else on the list?) The boss, assuming that Bill had heard the urgency

in her request, assumed that Bill would place the order before returning to the other tasks on her list.

Both members of this organization were using selective perception to evaluate the communication. Bill's perception was that the task of ordering could wait. The boss's perception was that her time frame was clear, though unstated. When two selective perceptions collide, a misunderstanding occurs.

## Information Overload

Information overload can be defined as “occurring when the information processing demands on an individual's time to perform interactions and internal calculations exceed the supply or capacity of time available for such processing (Schick, et. al., 1990).” Messages reach us in countless ways every day. Some are societal—advertisements that we may hear or see in the course of our day. Others are professional—e-mails, and memos, voice mails, and conversations from our colleagues. Others are personal—messages and conversations from our loved ones and friends.

Add these together and it's easy to see how we may be receiving more information than we can take in. This state of imbalance is known as information overload. Experts note that information overload is “A symptom of the high-tech age, which is too much information for one human being to absorb in an expanding world of people and technology. It comes from all sources including TV, newspapers, and magazines as well as wanted and unwanted regular mail, e-mail and faxes. It has been exacerbated enormously because

of the formidable number of results obtained from Web search engines (PC Magazine, 2008).” Other research shows that working in such fragmented fashion has a significant negative effect on efficiency, creativity, and mental acuity (Overholt, 2001).

Going back to our example of Bill. Let’s say he’s in his cubicle on the phone with a supplier. While he’s talking, he hears the chime of e-mail alerting him to an important message from his boss. He’s scanning through it quickly, while still on the phone, when a coworker pokes his head around the cubicle corner to remind Bill that he’s late for a staff meeting. The supplier on the other end of the phone line has just given Bill a choice among the products and delivery dates he requested. Bill realizes he missed hearing the first two options, but he doesn’t have time to ask the supplier to repeat them all or to try reconnecting to place the order at a later time. He chooses the third option—at least he heard that one, he reasons, and it seemed fair. How good was Bill’s decision amid all the information he was processing at the same time?

## Emotional disconnects

**Emotional disconnects** happen when the Sender or the Receiver is upset, whether about the subject at hand or about some unrelated incident that may have happened earlier. An effective communication requires a Sender and a Receiver who are open to speaking and listening to one another, despite possible differences in opinion or personality. One or both parties may have to put their emotions aside to achieve the goal of communicating clearly. A Receiver who is emotionally upset tends to ignore or distort what

the Sender is saying. A Sender who is emotionally upset may be unable to present ideas or feelings effectively.

## Lack of Source Credibility

**Lack of source familiarity or credibility** can derail communications, especially when humor is involved. Have you ever told a joke that fell flat? You and the Receiver lacked the common context that could have made it funny. (Or yes, it could have just been a lousy joke.) Sarcasm and irony are subtle, and potentially hurtful, commodities in business. It's best to keep these types of communications out of the workplace as their benefits are limited, and their potential dangers are great. Lack of familiarity with the Sender can lead to misinterpreting humor, especially in less-rich information channels like e-mail. For example, an e-mail from Jill that ends with, "Men, like hens, should boil in vats of oil," could be interpreted as antimale if the Receiver didn't know that Jill has a penchant for rhyme and likes to entertain coworkers by making up amusing sayings.

Similarly, if the Sender lacks credibility or is untrustworthy, the Message will not get through. Receivers may be suspicious of the Sender's motivations ("Why am I being told this?"). Likewise, if the Sender has communicated erroneous information in the past, or has created false emergencies, his current Message may be filtered.

Workplace gossip, also known as the grapevine, is a lifeline for many employees seeking information about their company (Kurland & Pelled, 2000). Researchers agree that the grapevine is an inevitable part of organizational life. Research finds that 70% of



all organizational communication occurs at the grapevine level (Crampton, 1998).

Employees trust their peers as a source of Messages, but the grapevine's informal structure can be a barrier to effective communication from the managerial point of view. Its grassroots structure gives it greater credibility in the minds of employees than information delivered through official channels, even when that information is false.

Some downsides of the office grapevine are that gossip offers politically minded insiders a powerful tool for disseminating communication (and self-promoting miscommunications) within an organization. In addition, the grapevine lacks a specific Sender, which can create a sense of distrust among employees—who is at the root of the gossip network? When the news is volatile, suspicions may arise as to the person or persons behind the Message. Managers who understand the grapevine's power can use it to send and receive Messages of their own. They also decrease the grapevine's power by sending official Messages quickly and accurately, should big news arise.

## Semantics

Semantics is the study of meaning in communication. Words can mean different things to different people, or they might not mean anything to another person. For example, companies often have their own acronyms and buzzwords (called business jargon) that are clear to them but impenetrable to outsiders. For example, at IBM, GBS is focusing on BPTS, using expertise acquired from the PwC

purchase (which had to be sold to avoid conflicts of interest in light of SOX) to fend off other BPO providers and inroads by the Bangalore tiger. Does this make sense to you? If not, here's the translation: IBM's Global Business Services (GBS) division is focusing on offering companies Business Process Transformation Services (BPTS), using the expertise it acquired from purchasing the management consulting and technology services arm of PricewaterhouseCoopers (PwC), which had to sell the division because of the Sarbanes-Oxley Act (SOX, enacted in response to the major accounting scandals like the Enron). The added management expertise puts it above business process outsourcing (BPO) vendors who focus more on automating processes rather than transforming and improving them. Chief among these BPO competitors is Wipro, often called the "Bangalore tiger" because of its geographic origin and aggressive growth.

Given the amount of Messages we send and receive every day, it makes sense that humans try to find shortcuts—a way to communicate things in code. In business, this code is known as jargon. Jargon is the language of specialized terms used by a group or profession. It is common shorthand among experts and if used sensibly can be a quick and efficient way of communicating. Most jargon consists of unfamiliar terms, abstract words, nonexistent words, acronyms, and abbreviations, with an occasional euphemism thrown in for good measure. Every profession, trade, and organization has its own specialized terms (Wright, 2008). At first glance, jargon seems like a good thing—a quicker way to send an effective communication, the way text message abbreviations can send common messages in a shorter, yet understandable way. But that's not always how things happen. Jargon can be an obstacle to effective communication, causing listeners to tune out or fostering ill-feeling between partners in a conversation. When jargon rules the day, the Message can get obscured.

A key question to ask before using jargon is, "Who is the Receiver of my Message?" If you are a specialist speaking to another specialist in your area, jargon may be the best way to send a message while forging a professional bond—similar to the way best friends can

communicate in code. For example, an information technology (IT) systems analyst communicating with another IT employee may use jargon as a way of sharing information in a way that reinforces the pair's shared knowledge. But that same conversation should be held in standard English, free of jargon, when communicating with staff members outside the IT group.

## Online Follow-Up

Here is a Web site of 80 buzz words in business:

[http://www.amanet.org/movingahead/  
editorial2002\\_2003/nov03\\_80buzzwords.htm](http://www.amanet.org/movingahead/editorial2002_2003/nov03_80buzzwords.htm)

and a discussion of why slang is a problem:

[http://sbinfocanada.about.com/od/  
speakforsuccesscourse/a/speechlesson5.htm](http://sbinfocanada.about.com/od/speakforsuccesscourse/a/speechlesson5.htm).

# Gender Differences

**Gender differences in communication** have been documented by a number of experts, including linguistics professor Deborah Tannen in her best-selling book *You Just Don't Understand: Women and Men in Conversation* (Tannen, 1991). Men and women work together every day. But their different styles of communication can sometimes work against them. Generally speaking, women like to ask questions before starting a project, while men tend to “jump right in.” A male manager who’s unaware of how many women communicate their readiness to work may misperceive a ready employee as not ready.

Another difference that has been noticed is that men often speak in sports metaphors, while many women use their home as a starting place for analogies. Women who believe men are “only talking about the game” may be missing out on a chance to participate in a division’s strategy and opportunities for teamwork and “rallying the troops” for success (Krotz, 2008).

“It is important to promote the best possible communication between men and women in the workplace,” notes gender policy adviser Dee Norton, who provided the above example. “As we move between the male and female cultures, we sometimes have to change how we behave (speak the language of the other gender) to gain the best results from the situation. Clearly, successful organizations of the future are going to have leaders and team members who understand, respect and apply the rules of gender culture appropriately (Norton, 2008).”

Being aware of these gender differences can be the first step in learning to work with them, as opposed to around them. For example, keep in mind that men tend to focus more on competition, data, and orders in their communications, while women tend to focus more on cooperation, intuition, and requests. Both styles can be effective in the right situations, but understanding the

differences is a first step in avoiding misunderstandings based on them.

**Differences in meaning** often exist between the Sender and Receiver. “*Mean what you say, and say what you mean.*” It’s an easy thing to say. But in business, what do those words mean? Different words mean different things to different people. Age, education, and cultural background are all factors that influence how a person interprets words. The less we consider our audience, the greater our chances of miscommunication will be. When communication occurs in the cross-cultural context, extra caution is needed given that different words will be interpreted differently across cultures and different cultures have different norms regarding nonverbal communication. Eliminating jargon is one way of ensuring that our words will convey real-world concepts to others. Speaking to our audience, as opposed to about ourselves, is another. Nonverbal Messages can also have different meanings.

## Table 2.1 Gestures Around the Globe

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Figure 2.8



1. “V” for victory. Use this gesture with caution! While in North America it signs victory or peace, in England and Australia it means something closer to “take this!”

Figure 2.9



2. The “OK” gesture. While in North America it means things are going well, in France it means a person is thought to be worthless, in Japan it refers to money, and in Brazil, Russia, and Germany it means something really not appropriate for the workplace.

Figure 2.10



3. The “thumbs up” means one in Germany, five in Japan, but a good job in North America. This can lead to confusion.

Figure 2.11



4. “Hook ‘em horns.” This University of Texas rallying call looks like the horns of a bull. However, in Italy it means you are being tricked, while in Brazil and Venezuela it means you are warding off evil.

Figure 2.12



5. *Waving your hand.* In much of Europe waving your hand indicates a disagreement. However, in North America it is routinely used as a way to signal greetings or to get someone's attention.

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Adapted from information in Axtell, R. E. (1998). *Gestures: The do's and taboos of body language around the world*. New York: John Wiley.

Managers who speak about “long-term goals and profits” to a staff that has received scant raises may find their core Message (“You’re doing a great job—and that benefits the folks in charge!”) has infuriated the group they hoped to inspire. Instead, managers who recognize the “contributions” of their staff and confirm that this work is contributing to company goals in ways “that will benefit the source of our success—our employees as well as executives,” will find their core Message (“You’re doing a great job—we really value your work”) is received as opposed to being misinterpreted.

**Biased language** can offend or stereotype others on the basis of their personal or group affiliation. The figure below provides a list of words that have the potential to be offensive in the left-hand column. The right-hand column provides more neutral words that you can use instead (Ashcraft & Mumby, 2003; Swift, 2007).



Figure 2.13 Avoiding Biased Language

Avoid	Consider Using
black attorney	attorney
businessman	business person
chairman	chair or chairperson
cleaning lady	cleaner or maintenance worker
male nurse	nurse
manpower	staff or personnel
secretary	assistant or associate

Effective communication is clear, factual, and goal-oriented. It is also respectful. Referring to a person by one adjective (a *brain*, a *diabetic*, an *invalid*) reduces that person to that one characteristic. Language that belittles or stereotypes a person poisons the communication process. Language that insults an individual or group based on age, ethnicity, sexual preference, or political beliefs violates public and private standards of decency, ranging from civil rights to corporate regulations.

The effort to create a neutral set of terms to refer to heritage and preferences has resulted in a debate over the nature of “political correctness.” Proponents of political correctness see it as a way to defuse the volatile nature of words that stereotyped groups and individuals in the past. Critics of political correctness see its vocabulary as stilted and needlessly cautious.

Many companies offer new employees written guides on standards of speech and conduct. These guides, augmented by common sense and courtesy, are solid starting points for effective, respectful workplace communication. Tips for appropriate workplace speech include but are not limited to

- Alternating the use of “he” and “she” when referring to people in general.
- Relying on human resources-generated guidelines.
- Remembering that terms that feel respectful or comfortable to us may not be comfortable or respectful to others.

## Poor Listening and Active Listening

Former Chrysler CEO Lee Iacocca lamented, “I only wish I could find an institute that teaches people how to listen. After all, a good manager needs to listen at least as much as he needs to talk (Iacocca & Novak, 1984).” Research shows that listening skills are related to promotions (Sypher, et. al., 1989). A Sender may strive to deliver a Message clearly. But the Receiver’s ability to listen effectively is equally vital to effective communication. The average worker spends 55% of her workdays listening. Managers listen up to 70% each day. But listening doesn’t lead to understanding in every case. Listening takes practice, skill, and concentration.

According to University of San Diego professor Phillip Hunsaker, “The consequences of poor listening are lower employee productivity, missed sales, unhappy customers, and billions of dollars of increased cost and lost profits. Poor listening is a factor in low employee morale and increased turnover because employees do not feel their managers listen to their needs, suggestions, or complaints (Alessandra, et. al., 1993).” Clearly, if you hope to have a

successful career in management, it behooves you to learn to be a good listener.

Alan Gulick, a Starbucks spokesperson, puts better listening to work in pursuit of better profits. If every Starbucks employee misheard one \$10 order each day, he calculates, their errors would cost the company a billion dollars annually. To teach its employees to listen, Starbucks created a code that helps employees taking orders hear the size, flavor, and use of milk or decaf coffee. The person making the drink echoes the order aloud.

How can you improve your listening skills? The Roman philosopher Cicero said, “Silence is one of the great arts of conversation.” How often have we been in conversation with someone else where we are not really listening but itching to convey our portion? This behavior is known as “rehearsing.” It suggests the Receiver has no intention of considering the Sender’s Message and intends to respond to an earlier point instead. Clearly, rehearsing is an impediment to the communication process. Effective communication relies on another kind of listening: active listening.

Active listening can be defined as giving full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times (Onet Center, 2008). Active listening creates a real-time relationship between the Sender and the Receiver by acknowledging the content and receipt of a Message. As we’ve seen in the Starbucks example, repeating and confirming a Message’s content offers a way to confirm that the correct content is flowing between colleagues. The process creates a bond between coworkers while increasing the flow and accuracy of messaging.

Carl Rogers, founder of the “person-centered” approach to psychology, formulated five rules for active listening:

1. Listen for message content
2. Listen for feelings
3. Respond to feelings
4. Note all cues

## 5. Paraphrase and restate

The good news is that listening is a skill that can be learned (Brownell, 1990). The first step is to decide that we want to listen. Casting aside distractions, such as by reducing background or internal noise, is critical. The Receiver takes in the Sender's Message silently, without speaking. Second, throughout the conversation, show the speaker that you're listening. You can do this nonverbally by nodding your head and keeping your attention focused on the speaker. You can also do it verbally, by saying things like, "Yes," "That's interesting," or other such verbal cues. As you're listening, pay attention to the Sender's body language for additional cues about how they're feeling. Interestingly, silence plays a major role in active listening. During active listening, we are trying to understand what has been said, and in silence, we can consider the implications. We can't consider information and reply to it at the same time. That's where the power of silence comes into play. Finally, if anything is not clear to you, ask questions. Confirm that you've heard the message accurately, by repeating back a crucial piece like, "Great, I'll see you at 2 p.m. in my office." At the end of the conversation, a "thank you" from both parties is an optional but highly effective way of acknowledging each other's teamwork.

In summary, active listening creates a more dynamic relationship between a Receiver and a Sender. It strengthens personal investment in the information being shared. It also forges healthy working relationships among colleagues by making Speakers and Listeners equally valued members of the communication process.

### *Key Takeaway*

Many barriers to effective communication exist.  
Examples include filtering, selective perception,

information overload, emotional disconnects, lack of source familiarity or credibility, workplace gossip, semantics, gender differences, differences in meaning between Sender and Receiver, and biased language. The Receiver can enhance the probability of effective communication by engaging in active listening, which involves (1) giving one's full attention to the Sender and (2) checking for understanding by repeating the essence of the Message back to the Sender.

## *Exercises*

1. Most people are poor listeners. Do you agree or disagree with this statement? Please support your position.
2. Please share an example of how differences in shared meaning have affected you.
3. Give an example of selective perception.
4. Do you use jargon at or in your classes? If so, do you think it helps or hampers communication? Why or why not?
5. In your experience, how is silence used in communication? How does your experience compare with the recommended use of silence in active listening?

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## 2.5 Different Types of Communication

### *Learning Objectives*

1. Understand the features and advantages of verbal communication.
2. Understand the features and advantages of written communication.
3. Understand the features of nonverbal communication and how it interacts with verbal and written communications.

Communication can be categorized into three basic types: (1) verbal communication, in which you listen to a person to understand their meaning; (2) written communication, in which you read their meaning; and (3) nonverbal communication, in which you observe a person and infer meaning. Each has its own advantages, disadvantages, and even pitfalls.



# Verbal Communication

Verbal communications in business take place over the phone or in person. The medium of the Message is *oral*. Let's return to our printer cartridge example. This time, the Message is being conveyed from the Sender (the Manager) to the Receiver (an employee named Bill) by telephone. We've already seen how the Manager's request to Bill ("We need to buy more printer toner cartridges") can go awry. Now let's look at how the same Message can travel successfully from Sender to Receiver.

Manager (speaking on the phone): "Good morning, Bill!"

*(By using the employee's name, the manager is establishing a clear, personal link to the Receiver.)*

Manager: "Your division's numbers are looking great."

*(The Manager's recognition of Bill's role in a winning team further personalizes and emotionalizes the conversation.)*

Manager: "Our next step is to order more printer toner cartridges. Could you place an order for 1,000 printer toner cartridges with Jones Computer Supplies? Our budget for this purchase is \$30,000, and the cartridges need to be here by Wednesday afternoon."

*(The Manager breaks down the task into several steps. Each step consists of a specific task, time frame, quantity, or goal.)*

Bill: "Sure thing! I'll call Jones Computer Supplies and order 1,000 more printer toner cartridges, not exceeding a total of \$30,000, to be here by Wednesday afternoon."

*(Bill, who is good at active listening, repeats what he has heard. This is the Feedback portion of the communication, and verbal communication has the advantage of offering opportunities for immediate feedback. Feedback helps Bill to recognize any confusion he may have had hearing the manager's Message. Feedback also helps the manager to tell whether she has communicated the Message correctly.)*

# Storytelling

**Storytelling** has been shown to be an effective form of verbal communication; it serves an important organizational function by helping to construct common meanings for individuals within the organization. Stories can help clarify key values and help demonstrate how things are done within an organization, and story frequency, strength, and tone are related to higher organizational commitment (McCarthy, 2008). The quality of the stories entrepreneurs tell is related to their ability to secure capital for their firms (Martens, et. al., 2007). Stories can serve to reinforce and perpetuate an organization's culture, part of the organizing P-O-L-C function.

## Crucial Conversations

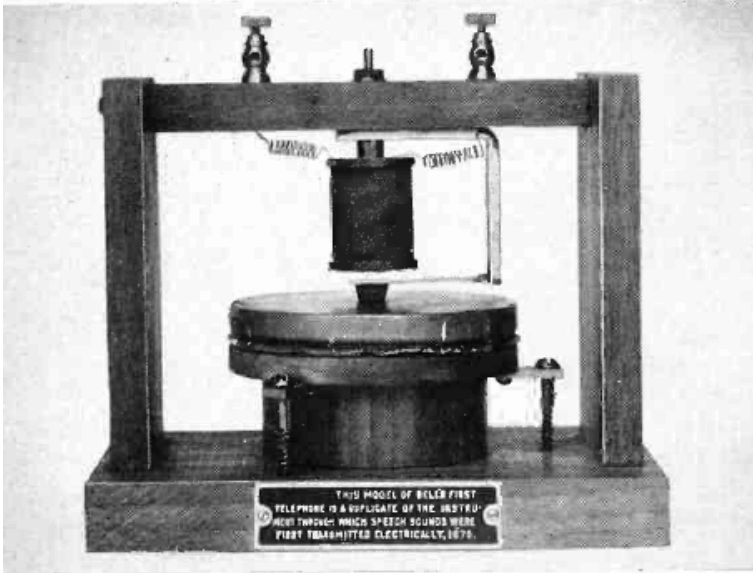
While the process may be the same, high-stakes communications require more planning, reflection, and skill than normal day-to-day interactions at work. Examples of high-stakes communication events include asking for a raise or presenting a business plan to a venture capitalist. In addition to these events, there are also many times in our professional lives when we have crucial conversations—discussions where not only the stakes are high but also where opinions vary and emotions run strong (Patterson, et. al., 2002). One of the most consistent recommendations from

communications experts is to work toward using “and” instead of “but” as you communicate under these circumstances. In addition, be aware of your communication style and practice flexibility; it is under stressful situations that communication styles can become the most rigid.

## Written Communication

In contrast to verbal communications, written business communications are *printed messages*. Examples of written communications include memos, proposals, e-mails, letters, training manuals, and operating policies. They may be printed on paper, handwritten, or appear on the screen. Normally, a verbal communication takes place in real time. Written communication, by contrast, can be constructed over a longer period of time. Written communication is often asynchronous (occurring at different times). That is, the Sender can write a Message that the Receiver can read at any time, unlike a conversation that is carried on in real time. A written communication can also be read by many people (such as all employees in a department or all customers). It's a “one-to-many” communication, as opposed to a one-to-one verbal conversation. There are exceptions, of course: a voicemail is an oral Message that is asynchronous. Conference calls and speeches are oral one-to-many communications, and e-mails may have only one recipient or many.

Figure 2.14



Communication mediums have come a long way since Alexander Graham Bell's original telephone.

Wikimedia Commons – [First Bell telephone 1875](#) – public domain.

Most jobs involve some degree of writing. According to the National Commission on Writing, 67% of salaried employees in large American companies and professional state employees have some writing responsibility. Half of responding companies reported that they take writing into consideration when hiring professional employees, and 91% always take writing into account when hiring (for any position, not just professional-level ones) (Flink, 2007).

Luckily, it is possible to learn to write clearly. Here are some tips

on writing well. Thomas Jefferson summed up the rules of writing well with this idea “Don’t use two words when one will do.” One of the oldest myths in business is that writing more will make us sound more important; in fact, the opposite is true. Leaders who can communicate simply and clearly project a stronger image than those who write a lot but say nothing.

## Nonverbal Communication

What you say is a vital part of any communication. But what you *don’t say* can be even more important. Research also shows that 55% of in-person communication comes from nonverbal cues like facial expressions, body stance, and tone of voice. According to one study, only 7% of a Receiver’s comprehension of a Message is based on the Sender’s actual words; 38% is based on paralanguage (the tone, pace, and volume of speech), and 55% is based on *nonverbal cues* (body language) (Mehrabian, 1981).

Research shows that nonverbal cues can also affect whether you get a job offer. Judges examining videotapes of actual applicants were able to assess the social skills of job candidates with the sound turned off. They watched the rate of gesturing, time spent talking, and formality of dress to determine which candidates would be the most successful socially on the job (Gifford, et. al., 1985). For this reason, it is important to consider how we appear in business as well as what we say. The muscles of our faces convey our emotions. We can send a silent message without saying a word. A change in facial expression can change our emotional state. Before an interview, for example, if we focus on feeling confident, our face will convey that

confidence to an interviewer. Adopting a smile (even if we're feeling stressed) can reduce the body's stress levels.

To be effective communicators, we need to align our body language, appearance, and tone with the words we're trying to convey. Research shows that when individuals are lying, they are more likely to blink more frequently, shift their weight, and shrug (Siegman, 1985).

## Listen Up and Learn More!

To learn more about facial language from facial recognition expert Patrician McCarthy as she speaks with Senior Editor Suzanne Woolley at *Business Week*, view the online interview at [http://feedroom.businessweek.com/index.jsp?fr\\_chl=1e2ee1e43e4a5402a862f79a7941fa625f5b0744](http://feedroom.businessweek.com/index.jsp?fr_chl=1e2ee1e43e4a5402a862f79a7941fa625f5b0744).

Another element of nonverbal communication is tone. A different tone can change the perceived meaning of a message demonstrates how clearly this can be true, whether in verbal or written communication. If we simply read these words without the added emphasis, we would be left to wonder, but the emphasis shows us

how the tone conveys a great deal of information. Now you can see how changing one’s tone of voice or writing can incite or defuse a misunderstanding.

Table 2.2 Don’t Use That Tone with Me!

Placement of the emphasis	What it means
I did not tell John you were late.	Someone else told John you were late.
I did <b>not</b> tell John you were late.	This did not happen.
I did not <b>tell</b> John you were late.	I may have implied it.
I did not tell <b>John</b> you were late.	But maybe I told Sharon and José.
I did not tell John <b>you</b> were late.	I was talking about someone else.
I did not tell John you <b>were</b> late.	I told him you still are late.
I did not tell John you were <b>late</b> .	I told him you were attending another meeting.

Changing your tone can dramatically change your meaning.

Source: Based on ideas in Kiely, M. (1993, October). When “no” means “yes.” *Marketing*, 7–9.

For an example of the importance of nonverbal communication,

imagine that you're a customer interested in opening a new bank account. At one bank, the bank officer is dressed neatly. She looks you in the eye when she speaks. Her tone is friendly. Her words are easy to understand, yet she sounds professional. "Thank you for considering Bank of the East Coast. We appreciate this opportunity and would love to explore ways that we can work together to help your business grow," she says with a friendly smile.

At the second bank, the bank officer's tie is stained. He looks over your head and down at his desk as he speaks. He shifts in his seat and fidgets with his hands. His words say, "Thank you for considering Bank of the West Coast. We appreciate this opportunity and would love to explore ways that we can work together to help your business grow," but he mumbles, and his voice conveys no enthusiasm or warmth.

Which bank would you choose?

The speaker's body language must match his or her words. If a Sender's words and body language don't match—if a Sender smiles while telling a sad tale, for example—the mismatch between verbal and nonverbal cues can cause a Receiver to actively dislike the Sender.

Here are a few examples of nonverbal cues that can support or detract from a Sender's Message.

## Body Language

A simple rule of thumb is that simplicity, directness, and warmth convey sincerity. And sincerity is key to effective communication. A firm handshake, given with a warm, dry hand, is a great way



to establish trust. A weak, clammy handshake conveys a lack of trustworthiness. Gnawing one's lip conveys uncertainty. A direct smile conveys confidence.

## Eye Contact

In business, the style and duration of eye contact considered appropriate vary greatly across cultures. In the United States, looking someone in the eye (for about a second) is considered a sign of trustworthiness.

## Facial Expressions

The human face can produce thousands of different expressions. These expressions have been decoded by experts as corresponding to hundreds of different emotional states (Ekman, et. al., 2008). Our faces convey basic information to the outside world. Happiness is associated with an upturned mouth and slightly closed eyes; fear with an open mouth and wide-eyed stare. Flitting (“shifty”) eyes and pursed lips convey a lack of trustworthiness. The effect of

facial expressions in conversation is instantaneous. Our brains may register them as “a feeling” about someone’s character.

## Posture

The position of our body relative to a chair or another person is another powerful silent messenger that conveys interest, aloofness, professionalism—or lack thereof. Head up, back straight (but not rigid) implies an upright character. In interview situations, experts advise mirroring an interviewer’s tendency to lean in and settle back in her seat. The subtle repetition of the other person’s posture conveys that we are listening and responding.

## Touch

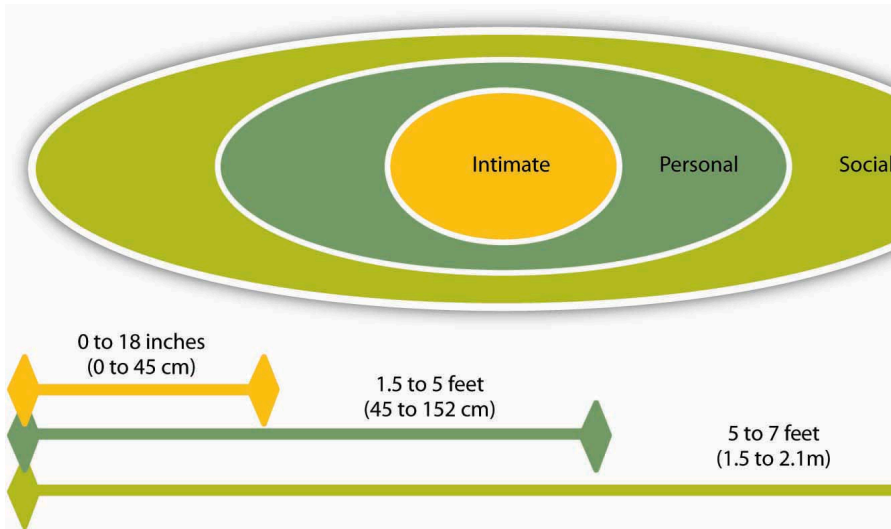
The meaning of a simple touch differs between individuals, genders, and cultures. In Mexico, when doing business, men may find themselves being grasped on the arm by another man. To pull away is seen as rude. In Indonesia, to touch anyone on the head or touch anything with one’s foot is considered highly offensive. In the Far

East, according to business etiquette writer Nazir Daud, “it is considered impolite for a woman to shake a man’s hand (Daud, 2008).” Americans, as we have noted, place great value in a firm handshake. But handshaking as a competitive sport (“the bone-crusher”) can come off as needlessly aggressive, at home and abroad.

## Space

Anthropologist Edward T. Hall coined the term *proxemics* to denote the different kinds of distance that occur between people. These distances vary between cultures. The figure below outlines the basic proxemics of everyday life and their meaning (Hall, 1966):

### Figure 2.15 Interpersonal Distances



Standing too far away from a colleague (such as a public speaking distance of more than seven feet) or too close to a colleague (intimate distance for embracing) can thwart an effective verbal communication in business.

### *Key Takeaway*

Types of communication include verbal, written, and nonverbal. Verbal communications have the advantage of immediate feedback, are best for conveying emotions, and can involve storytelling and crucial conversations. Written communications have the advantage of asynchronicity, of reaching many readers, and are best for conveying information. Both verbal and written communications convey nonverbal messages through tone; verbal

communications are also colored by body language, eye contact, facial expression, posture, touch, and space.

## *Exercises*

1. When you see a memo or e-mail full of typos, poor grammar, or incomplete sentences, how do you react? Does it affect your perception of the Sender? Why or why not?
2. How aware of your own body language are you? Has your body language ever gotten you into trouble when you were communicating with someone?
3. If the meaning behind verbal communication is only 7% words, what does this imply for written communication?

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## 2.6 Communication Channels

### *Learning Objectives*

1. Understand how communication channels affect communication.
2. Recognize different communication directions within organizations.

The channel, or medium, used to communicate a message affects how accurately the message will be received. Verbal, written, and nonverbal communications have different strengths and weaknesses. In business, the decision to communicate verbally or in written form can be a powerful one. In addition, a smart manager is aware of the nonverbal messages conveyed by either type of communication—as noted earlier, only 7% of verbal communication comes from the words themselves.

## Information Richness

Channels vary in their *information richness*. Information-rich channels convey more nonverbal information. As you may be able

to guess from our earlier discussion of verbal and written communications, verbal communications are richer than written ones. Research shows that effective managers tend to use more information-rich communication channels than less effective managers (Allen & Griffeth, 1997; Fulk & Boyd, 1991; Yater & Orlikowski, 1992). The figure below illustrates the information richness of different information channels.

Figure 2.16 Information Richness

Information Channel	Information Richness
Face-to-face conversation	High
Videoconferencing	High
Telephone conversation	High
E-mails	Medium
Handheld devices	Medium
Blogs	Medium
Written letters and memos	Medium
Formal written documents	Low
Spreadsheets	Low

Adapted from information in Daft, R. L., & Lenge, R. H. (1984). Information richness:



A new approach to managerial behavior and organizational design. In B. Staw & L. Cummings (Eds.), *Research in organizational behavior* (Vol. 6, pp. 191–233). Greenwich, CT: JAI Press; and Lengel, R. H., & Daft, D. L. (1988). The selection of communication media as an executive skill. *Academy of Management Executive*, 11, 225–232.

Like face-to-face and telephone conversation, videoconferencing has high information richness because Receivers and Senders can see or hear beyond just the words—they can see the Sender's body language or hear the tone of their voice. Handheld devices, blogs, and written letters and memos offer medium-rich channels because they convey words and pictures/photos. Formal written documents, such as legal documents, and spreadsheets, such as the division's budget, convey the least richness because the format is often rigid and standardized. As a result, nuance is lost.

In business, the decision to communicate verbally or in written form can be powerful. In addition, a smart manager is aware of the nonverbal messages conveyed by either type of communication—as noted earlier, only 7% of a verbal communication comes from the words themselves.

When determining whether to communicate verbally or in writing, ask yourself: *Do I want to convey facts or feelings?* Verbal communications are a better way to convey feelings. Written communications do a better job of conveying facts.

Picture a manager making a speech to a team of 20 employees. The manager is speaking at a normal pace. The employees appear interested. But how much information is being transmitted? Not as much as the speaker believes! Humans listen much faster than they speak. The average public speaker communicates at a speed of about 125 words a minute. And that pace sounds fine to the audience. (In fact, anything faster than that probably would sound weird. To put that figure in perspective, someone having an excited conversation speaks at about 150 words a minute.) On the basis of these numbers, we could assume that the employees have more than enough time to take in each word the manager delivers. And

that's the problem. The average person in the audience can hear 400–500 words a minute (Lee & Hatesohl, 2008). The audience has *more than enough time* to hear. As a result, they will each be processing many thoughts of their own, on totally different subjects, while the manager is speaking. As this example demonstrates, oral communication is an inherently flawed medium for conveying specific facts. Listeners' minds wander! It's nothing personal—in fact, it's totally physical. In business, once we understand this fact, we can make more intelligent communication choices based on the kind of information we want to convey.

The key to effective communication is to match the communication channel with the goal of the communication (Barry & Fulmer, 2004). For example, written media may be a better choice when the Sender wants a record of the content, has less urgency for a response, is physically separated from the Receiver, doesn't require a lot of feedback from the Receiver, or the Message is complicated and may take some time to understand. Oral communication, however, makes more sense when the Sender is conveying a sensitive or emotional Message, needs feedback immediately, and does not need a permanent record of the conversation. Use the guide provided for deciding when to use written versus verbal communication.

## Figure 2.17 Guide for When to Use Written Versus Verbal Communication

Use Written Communication When:	Use Verbal Communication When:
conveying facts	conveying emotion and feelings
the message needs to become part of a permanent file	the message does not need to be permanent
there is little time urgency	there is time urgency
you do not need immediate feedback	you need immediate feedback
the ideas are complicated	the ideas are simple or can be made simple with explanations

## Business Use of E-Mail

The growth of e-mail has been spectacular, but it has also created challenges in managing information and an ever-increasing speed of doing business. Over 100 million adults in the United States use e-mail regularly (at least once a day) (Taylor, 2002). Internet users around the world send an estimated 60 billion e-mails every day, and many of those are spam or scam attempts (CNET, 2006). That makes e-mail the second most popular medium of communication worldwide, second only to voice. A 2005 study estimated that less than 1% of all written human communications even reached paper—and we can imagine that this percentage has gone down

even further since then (Isom, 2005). To combat the overuse of e-mail, companies such as Intel have even instituted “no e-mail Fridays” where all communication is done via other communication channels. Learning to be more effective in your e-mail communications is an important skill. To learn more, check out the business e-mail do’s and don’ts.

## Business E-Mail Do’s and Don’ts

1. DON’T send or forward chain e-mails.
2. DON’T put anything in an e-mail that you don’t want the world to see.
3. DON’T write a Message in capital letters—this is the equivalent of SHOUTING.
4. DON’T routinely “cc” everyone all the time.  
Reducing inbox clutter is a great way to increase communication.
5. DON’T hit Send until you spell-check your e-mail.
6. DO use a subject line that summarizes your Message, adjusting it as the Message changes over time.
7. DO make your request in the first line of your e-

- mail. (And if that's all you need to say, stop there!)
8. DO end your e-mail with a brief sign-off such as, "Thank you," followed by your name and contact information.
  9. DO think of a work e-mail as a binding communication.
  10. DO let others know if you've received an e-mail in error.

Source: Adapted from information in Leland, K., & Bailey, K. (2000). *Customer service for dummies*. New York: Wiley; Information Technology Services (1997). Top 10 email dos and top ten email don'ts. Retrieved July 1, 2008, from the University of Illinois at Chicago Medical Center Web site: <http://www.uic.edu/hsc/uicmc/its/customers/email-tips.htm>; Kawasaki, G. (2006, February 3). The effective emailer. Retrieved July 1, 2008, from *How to Change the World* Web site: [http://blog.guykawasaki.com/2006/02/the\\_effective\\_e.html](http://blog.guykawasaki.com/2006/02/the_effective_e.html).

An important, although often ignored, rule when communicating emotional information is that e-mail's lack of richness can be your loss. As we saw in the chart above, e-mail is a medium-rich channel. It can convey facts quickly. But when it comes to emotion, e-mail's flaws make it far less desirable a choice than oral communication—the 55% of nonverbal cues that make a conversation comprehensible to a listener are missing. E-mail readers don't pick up on sarcasm and other tonal aspects of writing as much as the writer believes they will, researchers note in a recent study (Kruger, 2005).

The Sender may believe she has included these emotional signifiers in her Message. But, with words alone, those signifiers are

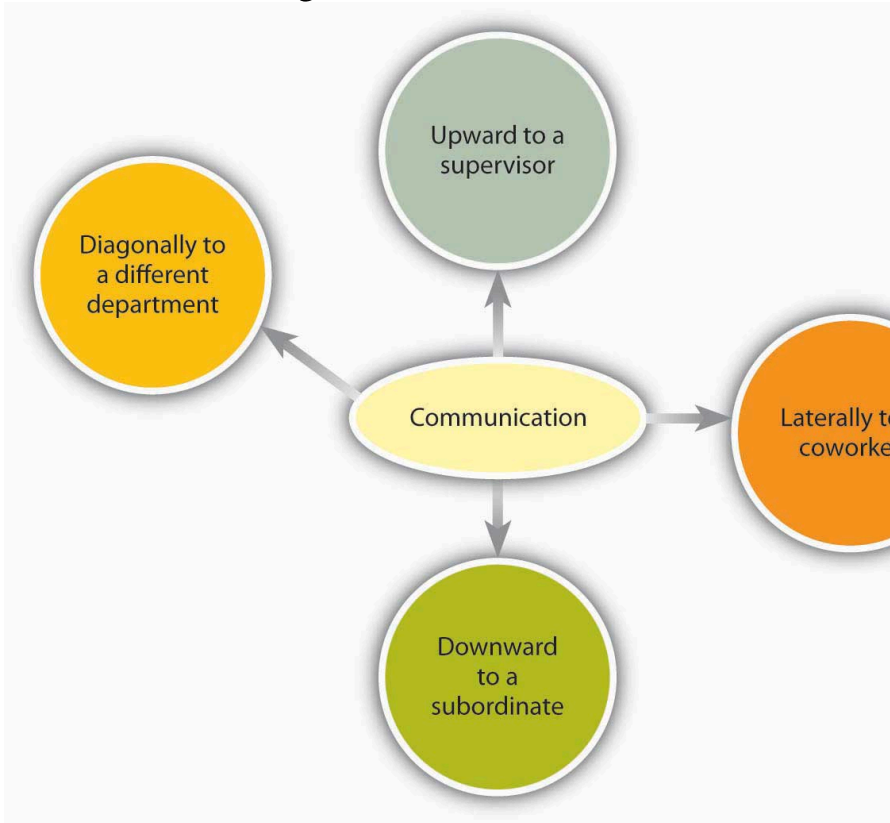
not there. This gap between the form and content of e-mail inspired the rise of emoticons—symbols that offer clues to the emotional side of the words in each Message. Generally speaking, however, emoticons are not considered professional in business communication.

You might feel uncomfortable conveying an emotionally laden message verbally, especially when the message contains unwanted news. Sending an e-mail to your staff that there will be no bonuses this year may seem easier than breaking the bad news face-to-face, but that doesn't mean that e-mail is an effective or appropriate way to deliver this kind of news. When the Message is emotional, the Sender should use verbal communication. Indeed, a good rule of thumb is that the more emotionally laden messages require more thought in the choice of channel and how they are communicated.

## Direction of Communication Within Organizations

Information can move horizontally, from a Sender to a Receiver, as we've seen. It can also move vertically, down from top management or up from the front line. Information can also move diagonally between and among levels of an organization, such as a Message from a customer service representative up to a manager in the manufacturing department, or a Message from the chief financial officer sent down to all department heads.

Figure 2.18



Communication flows in many different directions within an organization.

There is a chance for these arrows to go awry, of course. As Mihaly Csikszentmihalyi, author of best-selling books such as *Flow*, has noted, “In large organizations the dilution of information as it passes up and down the hierarchy, and horizontally across departments, can undermine the effort to focus on common goals.” Managers need to keep this in mind when they make organization design decisions as part of the organizing function.

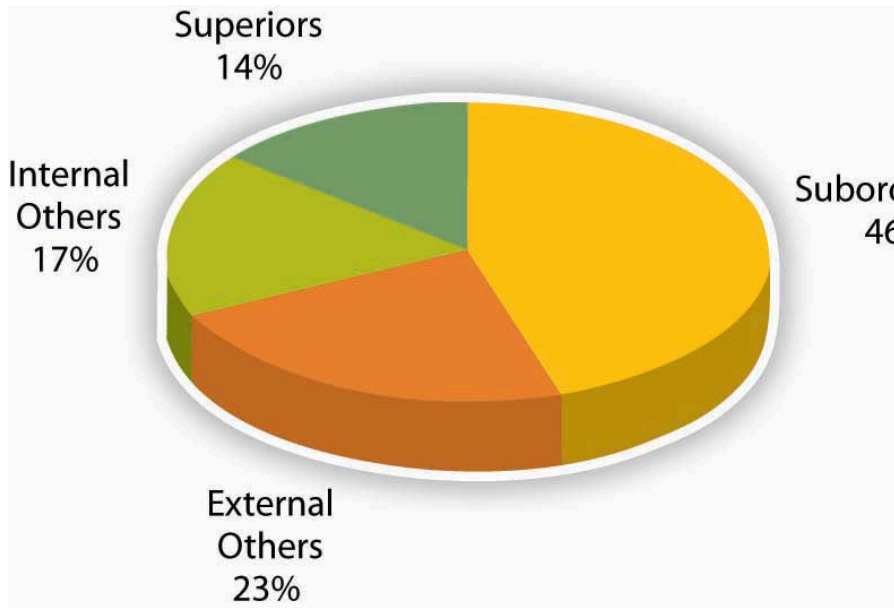
The organizational status of the Sender can affect the Receiver’s

attentiveness to the Message. For example, consider: A senior manager sends a memo to a production supervisor. The supervisor, who has a lower status within the organization, is likely to pay close attention to the Message. The same information, conveyed in the opposite direction, however, might not get the attention it deserves. The Message would be filtered by the senior manager's perception of priorities and urgencies.

Requests are just one kind of communication in business. Other communications, both verbal or written, may seek, give, or exchange information. Research shows that frequent communications with one's supervisor is related to better job performance ratings and overall organizational performance (Snyder & Morris, 1984; Kacmar, et. al., 2003). Research also shows that lateral communication done between peers can influence important organizational outcomes such as turnover (Krackhardt & Porter, 1986).

## Figure 2.19 Who Managers Spend Time Communicating with at Work





Adapted from information in Luthans, F., & Larsen, J. K. (1986). How managers really communicate. *Human Relations*, 39, 161–178.

## External Communications

External communications deliver specific business messages to individuals outside an organization. They may announce changes in staff or strategy, earnings, and more. The goal of an external communication is to create a specific Message that the Receiver

will understand and share with others. Examples of external communications include the following:

## Press Releases

**Public relations** professionals create external communications about a client's product, services or practices for specific Receivers. These Receivers, it is hoped, will share the Message with others. In time, as the Message is passed along, it should *appear* to be independent of The Sender, creating the illusion of an independently generated consumer trend, public opinion, and so on.

The Message of a public relations effort may be *b2b* (business to business), *b2c* (business to consumer), or media related. The Message can take different forms. Press releases try to convey a newsworthy message, real or manufactured. It may be constructed like a news item, inviting editors or reporters to reprint the Message in part, or as a whole, with or without acknowledgment of the Sender's identity. Public relations campaigns create Messages over time, through contests, special events, trade shows, and media interviews in addition to press releases.

# Ads

Advertising places external business Messages before target Receivers through media buys. A media buy is a fee that is paid to a television network, Web site, or magazine by an advertiser for an on-air, site, or publication ad. The fee is based on the perceived value of the audience who watches, reads, or frequents the space where the ad will appear.

In recent years, Receivers have begun to filter advertiser's Messages, a phenomenon that is perceived to be the result of the large amount of ads the average person sees each day and a growing level of consumer wariness of paid Messaging. Advertisers, in turn, are trying to create alternative forms of advertising that Receivers won't filter. The *advertorial* is one example of an external communication that combines the look of an article with the focused Message of an ad. Product placements in videos, movies, and games are other ways that advertisers strive to reach Receivers with commercial Messages.

# Web Pages

A Web page's external communication can combine elements of public relations, advertising, and editorial content, reaching Receivers on multiple levels and in multiple ways. Banner ads, blogs, and advertiser-driven "click-through" areas are just a few of the

elements that allow a business to deliver a Message to a Receiver online. The perceived flexibility of online communications can impart a less formal (and, therefore, more believable) quality to an external communication. A Message relayed in a daily blog post will reach a Receiver differently than if it is delivered in an annual report, for example. The popularity and power of blogs is growing, with 11% of *Fortune* 500 companies having official blogs (up from 4% in 2005). In fact, blogs have become so important to some companies as Coca-Cola, Kodak, and Marriott that they have created official positions within their organizations titled “Chief Blogging Officer (Workforce, 2008).”

The “real-time” quality of Web communications may appeal to Receivers who might filter out a traditional ad and public relations message because of its “prefab” quality. Despite their “spontaneous” feel, many online pages can be revisited in perpetuity. For this reason, clear and accurate external communications are as vital for online use as they are in traditional media.

## Customer Communications

Customer communications can include letters, catalogs, direct mail, e-mails, text messages, and telemarketing messages. Some Receivers automatically filter bulk messages like these. Others will be receptive. The key to a successful external communication to customers is to convey a business message in a personally compelling way—dramatic news, a money-saving coupon, and so forth.

## *Key Takeaway*

Different communication channels are more or less effective at transmitting different kinds of information. Some types of communication are information rich while others are medium rich. In addition, communications flow in different directions within organizations. A major internal communication channel is e-mail, which is convenient but needs to be handled carefully. External communication channels include PR/press releases, ads, Web pages, and customer communications such as letters and catalogs.

## *Exercises*

1. How could you use your knowledge of communication richness to be more effective in your own communications?
2. What are the three biggest advantages and disadvantages you see regarding technology and communications?
3. Explain the difference between internal and external communications in an organization, giving examples of each.

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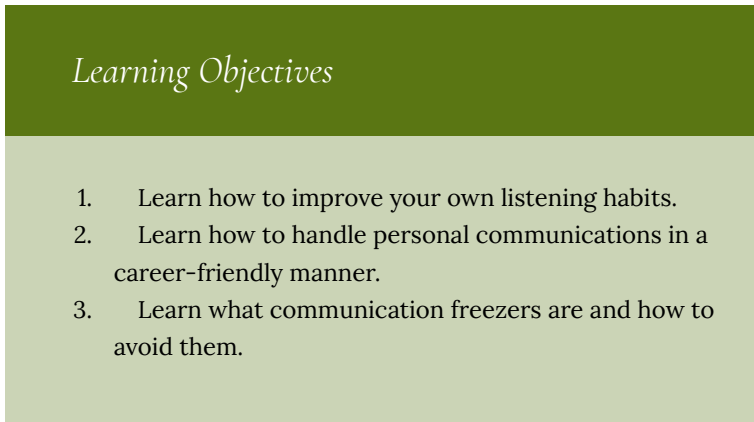
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## 2.7 Developing Your Personal Communication Skills



*Learning Objectives*

1. Learn how to improve your own listening habits.
2. Learn how to handle personal communications in a career-friendly manner.
3. Learn what communication freezers are and how to avoid them.

Figure 2.20





Communication can be formal or informal as seen here.

US Army Africa – [U.S. Africa Command C4ISR Senior Leaders Conference, Vicenza, Italy, February 2011](#) – CC BY 2.0.

By being sensitive to the errors outlined in this chapter and adopting active listening skills, you may increase your communication effectiveness, increasing your ability to carry out the managerial functions of planning, organizing, leading, and controlling. The following are additional tools for helping you increase your communication effectiveness.

# Ten Ways to Improve Your Listening Habits

1. *Start by stopping.* Take a moment to inhale and exhale quietly before you begin to listen. Your job as a listener is to receive information openly and accurately.
2. *Don't worry about what you'll say when the time comes.* Silence can be a beautiful thing.
3. *Join the Sender's team.* When she pauses, summarize what you believe she has said. "What I'm hearing is that we need to focus on marketing as well as sales. Is that correct?" Be attentive to physical as well as verbal communications. "I hear you saying that we should focus on marketing. But the way you're shaking your head tells me the idea may not really appeal to you—is that right?"
4. *Don't multitask while listening.* Listening is a full-time job. It's tempting to multitask when you and the Sender are in different places, but doing that is counterproductive. The human mind can only focus on one thing at a time. Listening with only half your brain increases the chances that you'll have questions

later, requiring more of the Speaker's time. (And when the speaker is in the same room, multitasking signals a disinterest that is considered rude.)

5. Try to *empathize with the Sender's point of view*. You don't have to agree; but can you find common ground?
6. Confused? *Ask questions*. There's nothing wrong with admitting you haven't understood the Sender's point. You may even help the Sender clarify the Message.
7. *Establish eye contact*. Making eye contact with the speaker (if appropriate for the culture) is important.
8. *What is the goal of this communication?* Ask yourself this question at different points during the communication to keep the information flow on track. Be polite. Differences in opinion can be the starting point of consensus.
9. *It's great to be surprised*. Listen with an open mind, not just for what you **want** to hear.
10. *Pay attention to what is not said*. Does the Sender's body language seem to contradict her Message? If so, clarification may be in order.

Adapted from information in Barrett, D. J. (2006). *Leadership communication*. New York: McGraw-Hill/Irwin; Improving verbal skills. Retrieved July 2, 2008, from <http://www.itstime.com/aug97.htm>; Ten tips: Active Listening from Communication at work. (2007, June 4). Retrieved July 2, 2008, from <http://communication.atwork-network.com/2007/06/04/ten-tips-active-listening>.

# Career-Friendly Communications

Communication can occur without your even realizing it. Consider the following: Is your e-mail name professional? The typical convention for business e-mail contains some form of your name. While an e-mail name like “LazyGirl” or “DeathMonkey” may be fine for chatting online with your friends, they may send the wrong signal to individuals you e-mail such as professors and prospective employers.

- Is your *outgoing voice mail greeting* professional? If not, change it. Faculty and prospective recruiters will draw certain conclusions if, upon calling you, they hear a message that screams, “Party, party, party!”
- Do you have a “private” social networking Web site on MySpace.com, Facebook.com, or Xanga.com? If so, consider what it says about you to employers or clients. If it is information you wouldn’t share at work, it probably shouldn’t be there.
- Googled yourself lately? If not, you probably should. Potential employers have begun searching the Web as part of background checking and you should be aware of what’s out there about you.

# Communication Freezers

Communication freezers put an end to effective communication by making the Receiver feel judged or defensive. Typical communication stoppers include criticizing, blaming, ordering, judging, or shaming the other person. The following are some examples of things to avoid saying (Tramel & Reynolds, 1981; Saltman & O'Dea, 2008):

1. Telling people what to do:
  - “You must...”
  - “You cannot...”
2. Threatening with “or else” implied:
  - “You had better...”
  - “If you don’t...”
3. Making suggestions or telling other people what they ought to do:
  - “You should...”
  - “It’s your responsibility to...”
4. Attempting to educate the other person:
  - “Let me give you the facts.”
  - “Experience tells us that...”
5. Judging the other person negatively:
  - “You’re not thinking straight.”

- “You’re wrong.”
6. Giving insincere praise:
- “You have so much potential.”
  - “I know you can do better than this.”
7. Psychoanalyzing the other person:
- “You’re jealous.”
  - “You have problems with authority.”
8. Making light of the other person’s problems by generalizing:
- “Things will get better.”
  - “Behind every cloud is a silver lining.”
9. Asking excessive or inappropriate questions:
- “Why did you do that?”
  - “Who has influenced you?”
10. Making light of the problem by kidding:
- “Think about the positive side.”
  - “You think you’ve got problems!”

### *Key Takeaway*

By practicing the skills associated with active listening, you can become more effective in your personal and professional relationships. Managing your online

communications appropriately can also help you avoid career pitfalls. Finally, be aware of the types of remarks that freeze communication and try not to use them.

## *Exercises*

1. How can you assess if you are engaging in active listening?
2. How does it feel when someone does not seem to be listening to you?
3. Some companies have MySpace pages where employees can mingle and share ideas and information. Do you think this practice is a good idea? Why or why not?
4. What advice would you give to someone who is going to become a first time manager in terms of communication?

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PART III

# CHAPTER 3: ORGANIZATIONAL CULTURE

3.1 Organizational Culture

3.2 Case in Point: Google Creates Unique Culture

3.3 Understanding Organizational Culture

3.4 Measuring Organizational Culture

3.5 Creating and Maintaining Organizational Culture

3.6 Creating Culture Change

3.7 Developing Your Personal Skills: Learning to Fit In



## 3.1 Organizational Culture

Figure 3.1



Just as water is invisible to the fish swimming in it, yet affects their actions, culture consists of unseen elements such as assumptions and values that affect organizational life.

Alexandru Stoian – [School of fish](#) – CC BY-NC-ND 2.0.

## *What's in It for Me?*

Reading this chapter will help you do the following:

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

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

## Figure 3.2 The P-O-L-C Framework

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

## 3.2 Case in Point: Google Creates Unique Culture



Figure 3.3



Ardo191 – [Googleplex Welcome Sign](#) – public domain.

Google (NASDAQ: GOOG) is one of the best-known and most admired companies around the world, so much so that “googling” is the term many use to refer to searching information on the Web. What started out as a student project by two Stanford University graduates—Larry Page and Sergey Brin—in 1996, Google became the most frequently used Web search engine on the Internet with 1 billion searches per day in 2009, as well as other innovative applications such as Gmail, Google Earth, Google Maps, and Picasa. Google grew from 10 employees working in a garage

in Palo Alto to 10,000 employees operating around the world by 2009. What is the formula behind this success?

Google strives to operate based on solid principles that may be traced back to its founders. In a world crowded with search engines, they were probably the first company that put users first. Their mission statement summarizes their commitment to end-user needs: “To organize the world’s information and to make it universally accessible and useful.” While other companies were focused on marketing their sites and increasing advertising revenues, Google stripped the search page of all distractions and presented users with a blank page consisting only of a company logo and a search box. Google resisted pop-up advertising, because the company felt that it was annoying to end-users. They insisted that all their advertisements would be clearly marked as “sponsored links.” This emphasis on improving user experience and always putting it before making more money in the short term seems to have been critical to their success.

Keeping their employees happy is also a value they take to heart. Google created a unique work environment that attracts, motivates, and retains the best players in the field. Google was ranked as the number 1 “Best Place to Work For” by *Fortune* magazine in 2007 and number 4 in 2010. This is not surprising if one looks closer to how Google treats employees. On their Mountain View, California, campus called the “Googleplex,” employees are treated to free gourmet food options including sushi bars and espresso stations. In fact, many employees complain that once they started working for Google, they tend to gain 10 to 15 pounds! Employees have access to gyms, shower facilities, video games, on-site child care, and doctors.



Google provides 4 months of paternal leave with 75% of full pay and offers \$500 for take-out meals for families with a newborn. These perks create a place where employees feel that they are treated well and their needs are taken care of. Moreover, they contribute to the feeling that they are working at a unique and cool place that is different from everywhere else they may have worked.

In addition, Google encourages employee risk taking and innovation. How is this done? When a vice president in charge of the company's advertising system made a mistake costing the company millions of dollars and apologized for the mistake, she was commended by Larry Page, who congratulated her for making the mistake and noting that he would rather run a company where they are moving quickly and doing too much, as opposed to being too cautious and doing too little. This attitude toward acting fast and accepting the cost of resulting mistakes as a natural consequence of working on the cutting edge may explain why the company is performing much ahead of competitors such as Microsoft and Yahoo! One of the current challenges for Google is to expand to new fields outside of their Web search engine business. To promote new ideas, Google encourages all engineers to spend 20% of their time working on their own ideas.

Google's culture is reflected in their decision making as well. Decisions at Google are made in teams. Even the company management is in the hands of a triad: Larry Page and Sergey Brin hired Eric Schmidt to act as the CEO of the company, and they are reportedly leading the company by consensus. In other words, this is not a company where decisions are made by the senior person in charge and then implemented top down. It is common for several small

teams to attack each problem and for employees to try to influence each other using rational persuasion and data. Gut feeling has little impact on how decisions are made. In some meetings, people reportedly are not allowed to say “I think...” but instead must say “the data suggest....” To facilitate teamwork, employees work in open office environments where private offices are assigned only to a select few. Even Kai-Fu Lee, the famous employee whose defection from Microsoft was the target of a lawsuit, did not get his own office and shared a cubicle with two other employees.

How do they maintain these unique values? In a company emphasizing hiring the smartest people, it is very likely that they will attract big egos that may be difficult to work with. Google realizes that its strength comes from its “small company” values that emphasize risk taking, agility, and cooperation. Therefore, they take their hiring process very seriously. Hiring is extremely competitive and getting to work at Google is not unlike applying to a college. Candidates may be asked to write essays about how they will perform their future jobs. Recently, they targeted potential new employees using billboards featuring brain teasers directing potential candidates to a Web site where they were subjected to more brain teasers. Each candidate may be interviewed by as many as eight people on several occasions. Through this scrutiny, they are trying to select “Googley” employees who will share the company’s values, perform at high levels, and be liked by others within the company.

Will this culture survive in the long run? It may be too early to tell, given that the company was only founded in 1998. The founders emphasized that their initial public

offering (IPO) would not change their culture and they would not introduce more rules or change the way things are done in Google to please Wall Street. But can a public corporation really act like a start-up? Can a global giant facing scrutiny on issues including privacy, copyright, and censorship maintain its culture rooted in its days in a Palo Alto garage? Larry Page is quoted as saying, “We have a mantra: don’t be evil, which is to do the best things we know how for our users, for our customers, for everyone. So I think if we were known for that, it would be a wonderful thing.”

Case written by information from Elgin, B., Hof, R. D., & Greene, J. (2005, August 8). Revenge of the nerds—again. *BusinessWeek*. Retrieved April 30, 2010, from [http://www.businessweek.com/technology/content/jul2005/tc20050728\\_5127\\_tc024.htm](http://www.businessweek.com/technology/content/jul2005/tc20050728_5127_tc024.htm); Hardy, Q. (2005, November 14). Google thinks small. *Forbes*, 176(10); Lashinky, A. (2006, October 2). Chaos by design. *Fortune*, 154(7); Mangalindan, M. (2004, March 29). The grownup at Google: How Eric Schmidt imposed better management tactics but didn’t stifle search giant. *Wall Street Journal*, p. B1; Lohr, S. (2005, December 5). At Google, cube culture has new rules. *New York Times*. Retrieved April 30, 2010, from <http://www.nytimes.com/2005/12/05/technology/05google.html>; Schoeneman, D. (2006, December 31). Can Google come out to play? *New York Times*. Retrieved April 30, 2010, from <http://www.nytimes.com/2006/12/31/fashion/31google.html>; Warner, M. (2004, June). What your company can learn from Google. *Business 2.0*, 5(5).

## *Discussion Questions*

1. Culture is an essential element of organizing in the P-O-L-C framework. Do you think Google has a strong culture? What would it take to make changes in that culture, for better or for worse?
2. Do you think Google's unique culture will help or hurt Google in the long run?
3. What are the factors responsible for the specific culture that exists in Google?
4. What type of decision-making approach has Google taken? Do you think this will remain the same over time? Why or why not?
5. Do you see any challenges Google may face in the future because of its emphasis on having a risk-taking culture?

## 3.3 Understanding Organizational Culture

### *Learning Objectives*

1. Define organizational culture.
2. Understand why organizational culture is important.
3. Understand the different levels of organizational culture.

## What Is Organizational Culture?

Organizational culture refers to a system of shared assumptions, values, and beliefs that show people what is appropriate and inappropriate behavior (Chatman & Eunyoung, 2003; Kerr & Slocum, 2005). These values have a strong influence on employee behavior as well as organizational performance. In fact, the term organizational culture was made popular in the 1980s when Peters

and Waterman's best-selling book *In Search of Excellence* made the argument that company success could be attributed to an organizational culture that was decisive, customer-oriented, empowering, and people-oriented. Since then, organizational culture has become the subject of numerous research studies, books, and articles. Organizational culture is still a relatively new concept. In contrast to a topic such as leadership, which has a history spanning several centuries, organizational culture is a young but fast-growing area within management.

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

# Why Does Organizational Culture Matter?

An organization's culture may be one of its strongest assets or its biggest liability. In fact, it has been argued that organizations that have a rare and hard-to-imitate culture enjoy a competitive advantage (Barney, 1986). In a survey conducted by the management consulting firm Bain & Company in 2007, worldwide business leaders identified corporate culture to be as important as corporate strategy for business success.<sup>1</sup> This comes as no surprise to leaders of successful businesses, who are quick to attribute their company's success to their organization's culture.

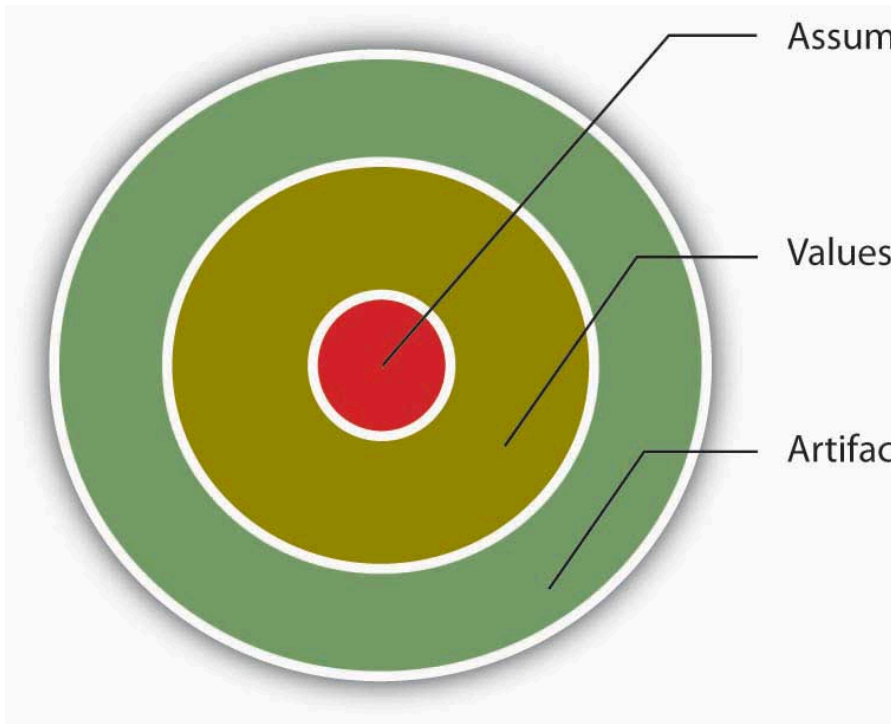
*Culture, or shared values within the organization, may be related to increased performance.* Researchers found a relationship between organizational cultures and company performance, with respect to success indicators such as revenues, sales volume, market share, and stock prices (Kotter & Heskett, 1992; Marcoulides & Heck, 1993). At the same time, it is important to have a culture that fits with the demands of the company's environment. To the extent that shared values are proper for the company in question, company performance may benefit from culture (Arogyaswamy & Byles, 1987). For example, if a company is in the high-tech industry, having a culture that encourages innovativeness and adaptability will support its performance. However, if a company in the same industry has a culture characterized by stability, a high respect for tradition, and a strong preference for upholding rules and procedures, the company may suffer because of its culture. In other words, just as having the "right" culture may be a competitive advantage for an organization, having the "wrong" culture may lead to performance difficulties, may be responsible for organizational failure, and may act as a barrier preventing the company from changing and taking risks.

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

## Levels of Organizational Culture

### Figure 3.5 Three Levels of Organizational Culture





Adapted from Schein, E. H. (1992). *Organizational Culture and Leadership*. San Francisco: Jossey-Bass.

Organizational culture consists of some aspects that are relatively more visible, as well as aspects that may lie below one's conscious awareness. Organizational culture can be thought of as consisting of three interrelated levels (Schein, 1992).

At the deepest level, below our awareness, lie basic assumptions. These assumptions are taken for granted and reflect beliefs about human nature and reality. At the second level, values exist. Values are shared principles, standards, and goals. Finally, at the surface, we have artifacts, or visible, tangible aspects of organizational culture. For example, in an organization, a basic assumption employees and managers share might be that happy employees benefit their organizations. This might be translated into values

such as egalitarianism, high-quality relationships, and having fun. The artifacts reflecting such values might be an executive “open door” policy, an office layout that includes open spaces and gathering areas equipped with pool tables, and frequent company picnics.

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

### *Key Takeaway*

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

## Exercises

1. Why do companies need culture?
2. Give an example of a company culture being a strength and a weakness.
3. In what ways does culture serve as a controlling mechanism?
4. If assumptions are below the surface, why do they matter?
5. Share examples of artifacts you have noticed at different organizations.

<sup>1</sup>Why culture can mean life or death for your organization. (September, 2007). *HR Focus*, 84, 9.

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## 3.4 Measuring Organizational Culture

### *Learning Objectives*

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

## Dimensions of Culture

Which values characterize an organization's culture? Even though culture may not be immediately observable, identifying a set of values that might be used to describe an organization's culture helps us identify, measure, and manage culture more effectively. For this purpose, several researchers have proposed various culture typologies. One typology that has received a lot of research attention is the Organizational Culture Profile (OCP) where culture is represented by seven distinct values (Chatman & Jehn, 1991; O'Reilly, et. al., 1991).

## Figure 3.6 Dimensions of Organizational Culture Profile (OCP)



*Adapted from information in O'Reilly, C. A., III, Chatman, J. A., & Caldwell, D. F. (1991). People and organizational culture: A profile comparison approach to assessing person-organization fit. Academy of Management Journal, 34, 487–516.*

# Innovative Cultures

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

# Aggressive Cultures

Companies with aggressive cultures value competitiveness and outperforming competitors; by emphasizing this, they often fall short in corporate social responsibility. For example, Microsoft is



often identified as a company with an aggressive culture. The company has faced a number of antitrust lawsuits and disputes with competitors over the years. In aggressive companies, people may use language such as “we will kill our competition.” In the past, Microsoft executives made statements such as “we are going to cut off Netscape’s air supply...Everything they are selling, we are going to give away,” and its aggressive culture is cited as a reason for getting into new legal troubles before old ones are resolved (Greene, et. al., 2004; Schlender, 1998).

Figure 3.7



Microsoft, the company that Bill Gates co-founded, has been described as having an aggressive culture.

IsaacMao – [Bill Gates world's most "spammed" person](#) – CC BY 2.0.

## Outcome-Oriented Cultures

The OCP framework describes outcome-oriented cultures as those that emphasize achievement, results, and action as important values. A good example of an outcome-oriented culture may be the electronics retailer Best Buy. Having a culture emphasizing sales performance, Best Buy tallies revenues and other relevant figures daily by department. Employees are trained and mentored to sell company products effectively, and they learn how much money their department made every day (Copeland, 2004). In 2005, the company implemented a Results Oriented Work Environment (ROWE) program that allows employees to work anywhere and anytime; they are evaluated based on results and fulfillment of clearly outlined objectives (Thompson, 2005). Outcome-oriented cultures hold employees as well as managers accountable for success and use systems that reward employee and group output. In these companies, it is more common to see rewards tied to performance indicators as opposed to seniority or loyalty. Research indicates that organizations that have a performance-oriented culture tend to outperform companies that are lacking such a culture (Nohria, et. al., 2003). At the same time, when performance

pressures lead to a culture where unethical behaviors become the norm, individuals see their peers as rivals, and short-term results are rewarded, the resulting unhealthy work environment serves as a liability (Probst & Raisch, 2005).

## Stable Cultures

Stable cultures are predictable, rule-oriented, and bureaucratic. When the environment is stable and certain, these cultures may help the organization to be effective by providing stable and constant levels of output (Westrum, 2004). These cultures prevent quick action and, as a result, may be a misfit to a changing and dynamic environment. Public sector institutions may be viewed as stable cultures. In the private sector, Kraft Foods is an example of a company with centralized decision making and rule orientation that suffered as a result of the culture-environment mismatch (Thompson, 2006). Its bureaucratic culture is blamed for killing good ideas in early stages and preventing the company from innovating. When the company started a change program to increase the agility of its culture, one of its first actions was to fight bureaucracy with more bureaucracy: The new position of vice president of “business process simplification” was created but was later eliminated (Boyle, 2004; Thompson, 2005; Thompson, 2006).

# People-Oriented Cultures

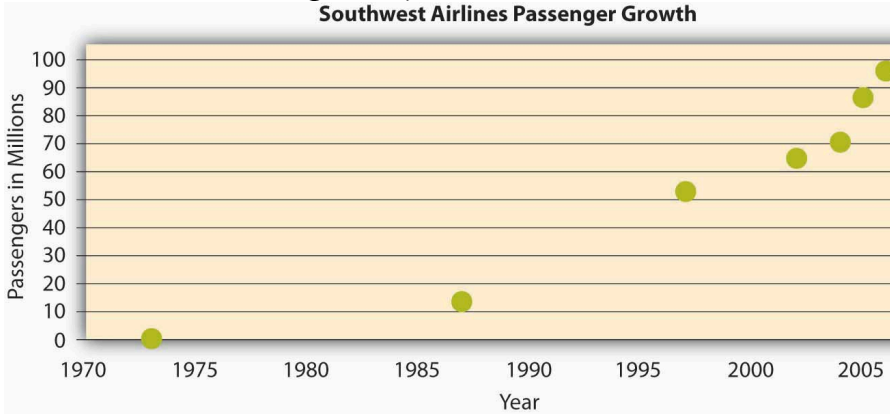
People-oriented cultures value fairness, supportiveness, and respecting individual rights. In these organizations, there is a greater emphasis on and expectation of treating people with respect and dignity (Erdogan, et. al., 2006). One study of new employees in accounting companies found that employees, on average, stayed 14 months longer in companies with people-oriented cultures (Sheridan, 1992). Starbucks is an example of a people-oriented culture. The company pays employees above minimum wage, offers health care and tuition reimbursement benefits to its part-time as well as full-time employees, and has creative perks such as weekly free coffee for all associates. As a result of these policies, the company benefits from a turnover rate lower than the industry average (Weber, 2005).

# Team-Oriented Cultures

Companies with a team-oriented culture are collaborative and emphasize cooperation among employees. For example, Southwest Airlines facilitates a team-oriented culture by cross-training its employees so that they are capable of helping one another when needed. The company also emphasizes training intact work teams (Bolino & Turnley, 2003). In Southwest's selection process, applicants who are not viewed as team players are not hired as

employees (Miles & Mangold, 2005). In team-oriented organizations, members tend to have more positive relationships with their coworkers and particularly with their managers (Erdogan, et. al., 2006).

Figure 3.8



The growth in the number of passengers flying with Southwest Airlines from 1973 until 2007 when Southwest surpassed American Airlines as the most flown U.S. airline. While price has played a role in this, their emphasis on service has been a key piece of their culture and competitive advantage.

Adapted from <http://upload.wikimedia.org/wikipedia/commons/6/69/Southwest-airlines-passengers.jpg>

# Detail-Oriented Cultures

Figure 3.9



Remember that, in the end, culture is really about people.

Chris Jones – [Culture in the UK](#) – CC BY-NC 2.0.

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

## Strength of Culture

A strong culture is one that is shared by organizational members (Arogyaswamy & Byles, 1987; Chatman & Eunyoung, 2003)).—that is, a culture in which most employees in the organization show consensus regarding the values of the company. The stronger a company's culture, the more likely it is to affect the way employees think and behave. For example, cultural values emphasizing customer service will lead to higher-quality customer service if there is widespread agreement among employees on the importance of customer-service-related values (Schneider, et. al., 2002).

It is important to realize that a strong culture may act as an asset or a liability for the organization, depending on the types of values that are shared. For example, imagine a company with a culture that is strongly outcome-oriented. If this value system matches the

organizational environment, the company may perform well and outperform its competitors. This is an asset as long as members are behaving ethically. However, a strong outcome-oriented culture coupled with unethical behaviors and an obsession with quantitative performance indicators may be detrimental to an organization's effectiveness. Enron is an extreme example of this dysfunctional type of strong culture.

One limitation of a strong culture is the difficulty of changing it. In an organization where certain values are widely shared, if the organization decides to adopt a different set of values, unlearning the old values and learning the new ones will be a challenge because employees will need to adopt new ways of thinking, behaving, and responding to critical events. For example, Home Depot had a decentralized, autonomous culture where many business decisions were made using "gut feeling" while ignoring the available data. When Robert Nardelli became CEO of the company in 2000, he decided to change its culture starting with centralizing many of the decisions that were previously left to individual stores. This initiative met with substantial resistance, and many high-level employees left during Nardelli's first year. Despite getting financial results such as doubling the sales of the company, many of the changes he made were criticized. He left the company in January 2007 (Charan, 2006; Herman & Wernle, 2007).

## Figure 3.10





Walt Disney created a strong culture at his company that has evolved since its founding in 1923.

NASA – [Walt disney portrait](#) – public domain.

A strong culture may also be a liability during a merger. During mergers and acquisitions, companies inevitably experience a clash of cultures, as well as a clash of structures and operating systems. Culture clash becomes more problematic if both parties have unique

and strong cultures. For example, during the merger of Daimler-Benz with Chrysler to create DaimlerChrysler, the differing strong cultures of each company acted as a barrier to effective integration. Daimler had a strong engineering culture that was more hierarchical and emphasized routinely working long hours. Daimler employees were used to being part of an elite organization, evidenced by flying first class on all business trips. However, Chrysler had a sales culture where employees and managers were used to autonomy, working shorter hours, and adhering to budget limits that meant only the elite flew first class. The different ways of thinking and behaving in these two companies introduced a number of unanticipated problems during the integration process (Badrtalei & Bates, 2007; Bower, 2001).

## Do Organizations Have a Single Culture?

So far, we have assumed that a company has a single culture that is shared throughout the organization. In reality there might be multiple cultures within the organization. For example, people working on the sales floor may experience a different culture from that experienced by people working in the warehouse. Cultures that emerge within different departments, branches, or geographic locations are called subcultures. Subcultures may arise from the personal characteristics of employees and managers, as well as the different conditions under which work is performed. In addition

to understanding the broader organization's values, managers will need to make an effort to understand subculture values to see their effect on workforce behavior and attitudes.

Sometimes, a subculture may take the form of a counterculture. Defined as shared values and beliefs that are in direct opposition to the values of the broader organizational culture (Kerr, et. al., 2005), countercultures are often shaped around a charismatic leader. For example, within a largely bureaucratic organization, an enclave of innovativeness and risk taking may emerge within a single department. A counterculture may be tolerated by the organization as long as it is bringing in results and contributing positively to the effectiveness of the organization. However, its existence may be perceived as a threat to the broader organizational culture. In some cases, this may lead to actions that would take away the autonomy of the managers and eliminate the counterculture.

### *Key Takeaway*

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

## Exercises

1. Think about an organization you are familiar with. On the basis of the dimensions of OCP, how would you characterize its culture?
2. Out of the culture dimensions described, which dimension do you think would lead to higher levels of employee satisfaction and retention? Which one would be related to company performance?
3. What are pros and cons of an outcome-oriented culture?
4. When bureaucracies were first invented, they were considered quite innovative. Do you think that different cultures are more or less effective at different points in time and in different industries? Why or why not?
5. Can you imagine an effective use of subcultures within an organization?

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## 3.5 Creating and Maintaining Organizational Culture

### *Learning Objectives*

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

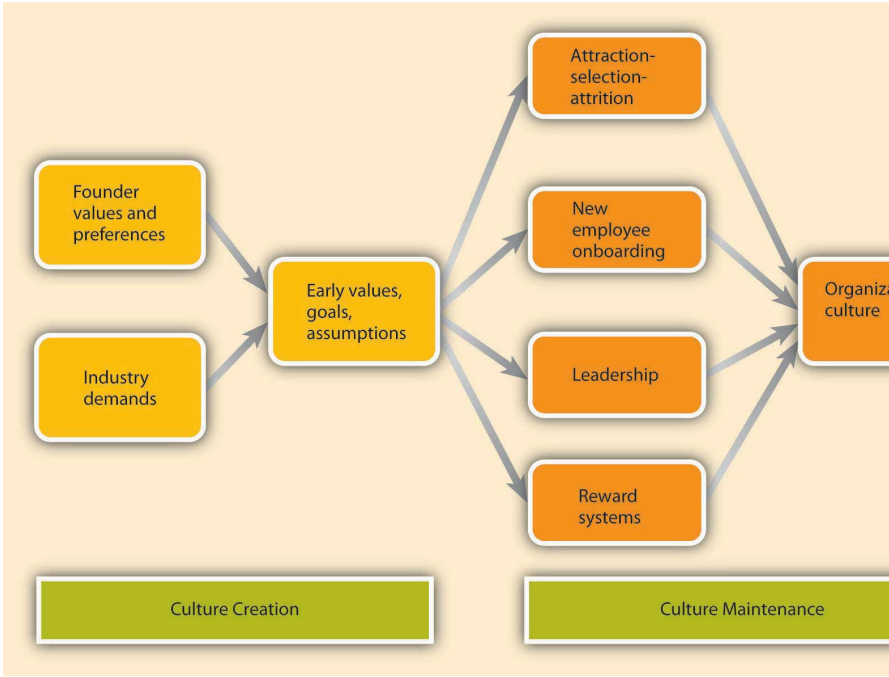
## How Are Cultures Created?

Where do cultures come from? Understanding this question is important in understanding how they can be changed. An organization's culture is shaped as the organization faces external and internal challenges and learns how to deal with them. When the organization's way of doing business provides a successful adaptation to environmental challenges and ensures success, those values are retained. These values and ways of doing business are taught to new members as *the* way to do business (Schein, 1992).

The factors that are most important in the creation of an

organization's culture include founders' values, preferences, and industry demands.

Figure 3.11 Model Describing How Cultures Are Created and Maintained





# Founder Values

A company's culture, particularly during its early years, is inevitably tied to the personality, background, and values of its founder or founders, as well as their vision for the future of the organization. When entrepreneurs establish their own businesses, the way they want to do business determines the organization's rules, the structure set up in the company, and the people they hire to work with them. For example, some of the existing corporate values of the ice cream company Ben & Jerry's Homemade Holdings Inc. can easily be traced to the personalities of its founders Ben Cohen and Jerry Greenfield. In 1978, the two high school friends opened up their first ice-cream shop in a renovated gas station in Burlington, Vermont. Their strong social convictions led them to buy only from the local farmers and devote a certain percentage of their profits to charities. The core values they instilled in their business can still be observed in the current company's devotion to social activism and sustainability, its continuous contributions to charities, use of environmentally friendly materials, and dedication to creating jobs in low-income areas. Even though Unilever acquired the company in 2000, the social activism component remains unchanged and Unilever has expressed its commitment to maintaining it (Kiger, 2005; Rubis, et. al., 2005; Smalley, 2007).

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

part of the corporate culture and were taught to new members as the right way to do business.

Figure 3.12



Ben & Jerry's has locations around the world, including this store in Singapore.

Waycool27 – [BenJerry-UnitedSquare](#) – public domain.

# Industry Demands

While founders undoubtedly exert a powerful influence over corporate cultures, the industry characteristics also play a role. Companies within the same industry can sometimes have widely differing cultures. At the same time, the industry characteristics and demands act as a force to create similarities among organizational cultures. For example, despite some differences, many companies in the insurance and banking industries are stable and rule-oriented, many companies in the high-tech industry have innovative cultures, and those in nonprofit industry may be people-oriented. If the industry is one with a large number of regulatory requirements—for example, banking, health care, and high-reliability (such as nuclear power plant) industries—then we might expect the presence of a large number of rules and regulations, a bureaucratic company structure, and a stable culture. The industry influence over culture is also important to know because this shows that it may not be possible to imitate the culture of a company in a different industry, even though it may seem admirable to outsiders.

## How Are Cultures Maintained?

As a company matures, its cultural values are refined and

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

## Attraction-Selection-Attrition

Organizational culture is maintained through a process known as attraction-selection-attrition (ASA). First, employees are *attracted* to organizations where they will fit in. Someone who has a competitive nature may feel comfortable in and may prefer to work in a company where interpersonal competition is the norm. Others may prefer to work in a team-oriented workplace. Research shows that employees with different personality traits find different cultures attractive. For example, out of the Big Five personality traits, employees who demonstrate neurotic personalities were less likely to be attracted to innovative cultures, whereas those who

had openness to experience were more likely to be attracted to innovative cultures (Judge & Cable, 1997).

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

Even after a company selects people for person-organization fit, there may be new employees who do not fit in. Some candidates may be skillful in impressing recruiters and signal high levels of culture fit even though they do not necessarily share the company's values. In any event, the organization is eventually going to eliminate candidates eventually who do not fit in through *attrition*. Attrition refers to the natural process where the candidates who do not fit in will leave the company. Research indicates that person-organization misfit is one of the important reasons for employee turnover (Kristof-Brown, et. al., 2005; O'Reilly, et. al., 1991).

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

research shows that organizations demonstrate a certain level of homogeneity regarding personalities and values of organizational members (Giberson, et. al., 2005).

## New Employee Onboarding

Another way in which an organization's values, norms, and behavioral patterns are transmitted to employees is through onboarding (also referred to as the *organizational socialization process*). Onboarding refers to the process through which new employees learn the attitudes, knowledge, skills, and behaviors required to function effectively within an organization. If an organization can successfully socialize new employees into becoming organizational insiders, new employees will feel accepted by their peers and confident regarding their ability to perform; they will also understand and share the assumptions, norms, and values that are part of the organization's culture. This understanding and confidence in turn translate into more effective new employees who perform better and have higher job satisfaction, stronger organizational commitment, and longer tenure within the company (Bauer, et. al., 2007). Organizations engage in different activities to facilitate onboarding, such as implementing orientation programs or matching new employees with mentors.

# What Can Employees Do During Onboarding?

New employees who are proactive, seek feedback, and build strong relationships tend to be more successful than those who do not (Bauer & Green, 1998; Kammeyer-Mueller & Wanberg, 2003; Wanberg & Kammeyer-Mueller, 2000). For example, *feedback seeking* helps new employees. Especially on a first job, a new employee can make mistakes or gaffes and may find it hard to understand and interpret the ambiguous reactions of coworkers. By actively seeking feedback, new employees may find out sooner rather than later any behaviors that need to be changed and gain a better understanding of whether their behavior fits with the company culture and expectations.

Relationship building or *networking* (a facet of the organizing function) is another important behavior new employees may demonstrate. Particularly when a company does not have a systematic approach to onboarding, it becomes more important for new employees to facilitate their own onboarding by actively building relationships. According to one estimate, 35% of managers who start a new job fail in the new job and either voluntarily leave or are fired within one and a half years. Of these, over 60% report not being able to form effective relationships with colleagues as the primary reason for this failure (Fisher, 2005).

# What Can Organizations Do During Onboarding?

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

A formal orientation program indoctrinates new employees to the company culture, as well as introducing them to their new jobs and colleagues. An orientation program has a role in making new employees feel welcome in addition to imparting information that may help them be successful in their new jobs. Many large organizations have formal orientation programs consisting of lectures, videotapes, and written material, while some may follow more informal approaches. According to one estimate, most orientations last anywhere from one to five days, and some companies are currently switching to a computer-based orientation. Ritz Carlton, the company ranked number 1 in *Training* magazine’s 2007 top 125 list, uses a very systematic approach to employee orientation and views orientation as the key to retention. In the 2-day classroom orientation, employees spend time with management, dine in the hotel’s finest restaurant, and witness the attention to customer service detail firsthand. During these two days, they are introduced to the company’s intensive service standards, team orientation, and its own language. Later, on their 21st day they are tested on the company’s service standards and are certified (Durett, 2006; Elswick, 2000). Research shows that formal orientation programs are helpful in teaching employees about the goals and history of the company, as well as communicating the power structure. Moreover, these programs may also help with a new employee’s integration to the team. However, these benefits



may not be realized to the same extent in computer-based orientations. In fact, compared to those taking part in a regular, face-to-face orientation, those undergoing a computer-based orientation were shown to have lower understanding of their job and the company, indicating that different formats of orientations may not substitute for each other (Klein & Weaver, 2000; Moscato, 2005; Wesson & Gogus, 2005).

## What Can Organizational Insiders Do During Onboarding?

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

mentors tend to be relatively more experienced than their protégés. Mentoring can occur naturally between two interested individuals or organizations can facilitate this process by having formal mentoring programs. These programs may successfully bring together mentors and protégés who would not come together otherwise.

Research indicates that the existence of these programs does not guarantee their success, and there are certain program characteristics that may make these programs more effective. For example, when mentors and protégés feel that they had input in the mentor-protégé matching process, they tend to be more satisfied with the arrangement. Moreover, when mentors receive training beforehand, the outcomes of the program tend to be more positive (Allen, et. al., 2006). Because mentors may help new employees interpret and understand the company's culture, organizations may benefit from selecting mentors who personify the company's values. Thus, organizations may need to design these programs carefully to increase their chance of success.

## Leadership

Leaders are instrumental in creating and changing an organization's culture. There is a direct correspondence between the leader's style and an organization's culture. For example, when leaders motivate employees through inspiration, corporate culture tends to be more supportive and people-oriented. When leaders motivate by making rewards contingent on performance, the corporate culture tended to be more performance-oriented and competitive (Sarros, et. al.,

2002). In these and many other ways, what leaders do directly influences the cultures of their organizations. This is a key point for managers to consider as they carry out their leading P-O-L-C function.

Part of the leader's influence over culture is through role modeling. Many studies have suggested that leader behavior, the consistency between organizational policy and leader actions, and leader role modeling determine the degree to which the organization's culture emphasizes ethics (Driscoll & McKee, 2007). The leader's own behaviors will signal to individuals what is acceptable behavior and what is unacceptable. In an organization in which high-level managers make the effort to involve others in decision making and seek opinions of others, a team-oriented culture is more likely to evolve. By acting as role models, leaders send signals to the organization about the norms and values that are expected to guide the actions of its members.

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

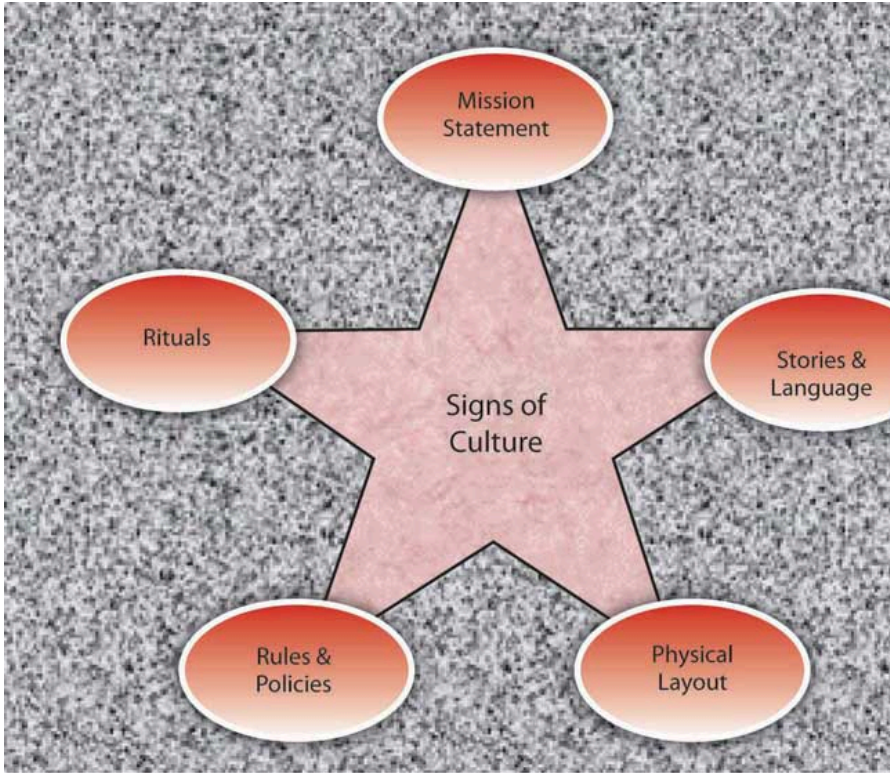
# Reward Systems

Finally, the company culture is shaped by the type of reward systems used in the organization and the kinds of behaviors and outcomes it chooses to reward and punish. One relevant element of the reward system is *whether the organization rewards behaviors or results*. Some companies have reward systems that emphasize intangible elements of performance as well as more easily observable metrics. In these companies, supervisors and peers may evaluate an employee's performance by assessing the person's behaviors as well as the results. In such companies, we may expect a culture that is relatively people- or team-oriented, and employees act as part of a family (Kerr & Slocum, 2005). However, in companies in which goal achievement is the sole criterion for reward, there is a focus on measuring only the results without much regard to the process. In these companies, we might observe outcome-oriented and competitive cultures. *Whether the organization rewards performance or seniority* would also make a difference in culture. When promotions are based on seniority, it would be difficult to establish a culture of outcome orientation. Finally, *the types of behaviors that are rewarded or ignored* set the tone for the culture. Which behaviors are rewarded, which ones are punished, and which are ignored will determine how a company's culture evolves. A reward system is one tool managers can wield when undertaking the controlling function.

# Signs of Organizational Culture

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

## Figure 3.13 Visual Elements of Culture



## Mission Statement

A mission statement is a statement of purpose, describing who the company is and what it does. It serves an important function for organizations as part of the first facet of the planning P-O-L-C function. But, while many companies have mission statements,

they do not always reflect the company's values and its purpose. An effective mission statement is well known by employees, is transmitted to all employees starting from their first day at work, and influences employee behavior.

Some mission statements reflect who the company wants to be as opposed to who they actually are. If the mission statement does not affect employee behavior on a day-to-day basis, it has little usefulness as a tool for understanding the company's culture. Enron provided an often-cited example of a disconnect between a company's mission statement and how the company actually operated. Their missions and values statement started with "As a partner in the communities in which we operate, Enron believes it has a responsibility to conduct itself according to certain basic principles." Their values statement included such ironic declarations as "We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don't belong here (Kunen, 2002)."

A mission statement that is taken seriously and widely communicated may provide insights into the corporate culture. For example, the Mayo Clinic's mission statement is "The needs of the patient come first." This mission statement evolved from the founders who are quoted as saying, "The best interest of the patient is the only interest to be considered." Mayo Clinics have a corporate culture that puts patients first. For example, no incentives are given to physicians based on the number of patients they see. Because doctors are salaried, they have no interest in retaining a patient for themselves, and they refer the patient to other doctors when needed (Jarnagin & Slocum, 2007). Wal-Mart may be another example of a company that lives its mission statement and therefore its mission statement may give hints about its culture: "Saving people money so they can live better (Wal-Mart, 2008)."

# Rituals

Figure 8.14



Tradition is important at Mary Kay Cosmetics. Pink Cadillacs are given to top performers at large annual events.

Phillip Pessar – [Pink 1963 Cadillac](#) – CC BY 2.0.

Rituals refer to repetitive activities within an organization that



have symbolic meaning (Anand, 2005). Usually rituals have their roots in the history of a company's culture. They create camaraderie and a sense of belonging among employees. They also serve to teach employees corporate values and create identification with the organization. For example, at the cosmetics firm Mary Kay Inc., employees attend ceremonies recognizing their top salespeople with an award of a new car—traditionally a pink Cadillac. These ceremonies are conducted in large auditoriums where participants wear elaborate evening gowns and sing company songs that create emotional excitement. During this ritual, employees feel a connection to the company culture and its values such as self-determination, willpower, and enthusiasm (Jarnagin & Slocum, 2007). Another example of rituals is the Saturday morning meetings of Wal-Mart. This ritual was first created by the company founder Sam Walton, who used these meetings to discuss which products and practices were doing well and which required adjustment. He was able to use this information to make changes in Wal-Mart's stores before the start of the week, which gave him a competitive advantage over rival stores who would make their adjustments based on weekly sales figures during the middle of the following week. Today, hundreds of Wal-Mart associates attend the Saturday morning meetings in the Bentonville, Arkansas, headquarters. The meetings, which run from 7:00 a.m. to 9:30 a.m., start and end with the Wal-Mart cheer; the agenda includes a discussion of weekly sales figures and merchandising tactics. As a ritual, the meetings help maintain a small-company atmosphere, ensure employee involvement and accountability, communicate a performance orientation, and demonstrate taking quick action (Schlender, 2005).

# Rules and Policies

Another way in which an observer may find out about a company's culture is to examine its rules and policies. Companies create rules to determine acceptable and unacceptable behavior and, thus, the rules that exist in a company will signal the type of values it has. Policies about issues such as decision making, human resources, and employee privacy reveal what the company values and emphasizes. For example, a company that has a policy such as "all pricing decisions of merchandise will be made at corporate headquarters" is likely to have a centralized culture that is hierarchical, as opposed to decentralized and empowering. The presence or absence of policies on sensitive issues such as English-only rules, bullying and unfair treatment of others, workplace surveillance, open-door policies, sexual harassment, workplace romances, and corporate social responsibility all provide pieces of the puzzle that make up a company's culture. This highlights how interrelated the P-O-L-C functions are in practice. Through rules and policies, the controlling function affects the organization's culture, a facet of organizing.

# Impact of HR Practices on Organizational Culture

Below are scenarios of critical decisions you may need to make as a manager one day. Read each question and select one response from each pair of statements. Then, think about the effect your choice would have on the company's culture (your organizing function) as well as on your controlling function.

1. Your company needs to lay off 10 people. Would you
  1. lay off the newest 10 people?
  2. lay off the 10 people who have the lowest performance evaluations?
2. You're asked to establish a dress code. Would you
  1. ask employees to use their best judgment?
  2. create a detailed dress code highlighting what is proper and improper?

3. You need to monitor employees during work hours. Would you
  1. not monitor them because they are professionals and you trust them?
  2. install a program monitoring their Web usage to ensure that they are spending work hours actually doing work?
4. You're preparing performance appraisals. Would you
  1. evaluate people on the basis of their behaviors?
  2. evaluate people on the basis of the results (numerical sales figures, etc.)?
5. Who will be promoted? Would you promote individuals based on
  1. seniority?
  2. objective performance?

## Physical Layout

A company's building, layout of employee offices, and other

workspaces communicate important messages about a company's culture. For example, visitors walking into the Nike campus in Beaverton, Oregon, can witness firsthand some of the distinguishing characteristics of the company's culture. The campus is set on 74 acres and boasts an artificial lake, walking trails, soccer fields, and cutting-edge fitness centers. The campus functions as a symbol of Nike's values such as energy, physical fitness, an emphasis on quality, and a competitive orientation. In addition, at fitness centers on the Nike headquarters, only those using Nike shoes and apparel are allowed in. This sends a strong signal that loyalty is expected. The company's devotion to athletes and their winning spirit are manifested in campus buildings named after famous athletes, photos of athletes hanging on the walls, and their statues dotting the campus (Capowski, 1993; Collins & Porras, 1996; Labich & Carvell, 1995; Mitchell, 2002).

The layout of the office space also is a strong indicator of a company's culture. A company that has an open layout where high-level managers interact with employees may have a culture of team orientation and egalitarianism, whereas a company where most high-level managers have their own floor may indicate a higher level of hierarchy. Microsoft employees tend to have offices with walls and a door because the culture emphasizes solitude, concentration, and privacy. In contrast, Intel is famous for its standard cubicles, which reflect its egalitarian culture. The same value can also be observed in its avoidance of private and reserved parking spots (Clark, 2007). The degree to which playfulness, humor, and fun are part of a company's culture may be indicated in the office environment. For example, Jive Software boasts a colorful, modern, and comfortable office design. Their break room is equipped with a keg of beer, free snacks and sodas, an Xbox 360, and Nintendo Wii. A casual observation of their work environment sends the message that employees who work there see their work as fun (Jive Software, 2008).

# Stories and Language

Perhaps the most colorful and effective way in which organizations communicate their culture to new employees and organizational members is through the skillful use of stories. A story can highlight a critical event an organization faced and the organization's response to it, or a heroic effort of a single employee illustrating the company's values. The stories usually engage employee emotions and generate employee identification with the company or the heroes of the tale. A compelling story may be a key mechanism through which managers motivate employees by giving their behavior direction and by energizing them toward a certain goal (Beslin, 2007). Moreover, stories shared with new employees communicate the company's history, its values and priorities, and create a bond between the new employee and the organization. For example, you may already be familiar with the story of how a scientist at 3M invented Post-it notes. Arthur Fry, a 3M scientist, was using slips of paper to mark the pages of hymns in his church choir, but they kept falling off. He remembered a superweak adhesive that had been invented in 3M's labs, and he coated the markers with this adhesive. Thus, the Post-it notes were born. However, marketing surveys for the interest in such a product were weak and the distributors were not convinced that it had a market. Instead of giving up, Fry distributed samples of the small yellow sticky notes to secretaries throughout his company. Once they tried them, people loved them and asked for more. Word spread and this led to the ultimate success of the product. As you can see, this story does a great job of describing the core values of a 3M employee: Being innovative by finding unexpected uses for objects, persevering, and being proactive in the face of negative feedback (Higgins & McAllester, 2002).

Language is another way to identify an organization's culture. Companies often have their own acronyms and buzzwords that

are clear to them and help set apart organizational insiders from outsiders. In business, this code is known as jargon. Jargon is the language of specialized terms used by a group or profession. Every profession, trade, and organization has its own specialized terms.

### *Key Takeaway*

Organizational cultures are created by a variety of factors, including founders' values and preferences, industry demands, and early values, goals, and assumptions. Culture is maintained through attraction-selection-attrition, new employee onboarding, leadership, and organizational reward systems. Signs of a company's culture include the organization's mission statement, stories, physical layout, rules and policies, and rituals.

### *Exercises*

1. Do you think it is a good idea for companies to emphasize person-organization fit when hiring new employees? What advantages and disadvantages do you see when hiring people who fit with company values?
2. What is the influence of company founders on company culture? Give examples based on your personal knowledge.
3. What are the methods companies use to aid with

employee onboarding? What is the importance of onboarding for organizations?

4. What type of a company do you feel you would fit in? What type of a culture would be a misfit for you? In your past work experience, were there any moments when you felt that you did not fit in? Why?
5. What is the role of physical layout as an indicator of company culture? What type of a physical layout would you expect from a company that is people-oriented? Team-oriented? Stable?

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## 3.6 Creating Culture Change

### *Learning Objective*

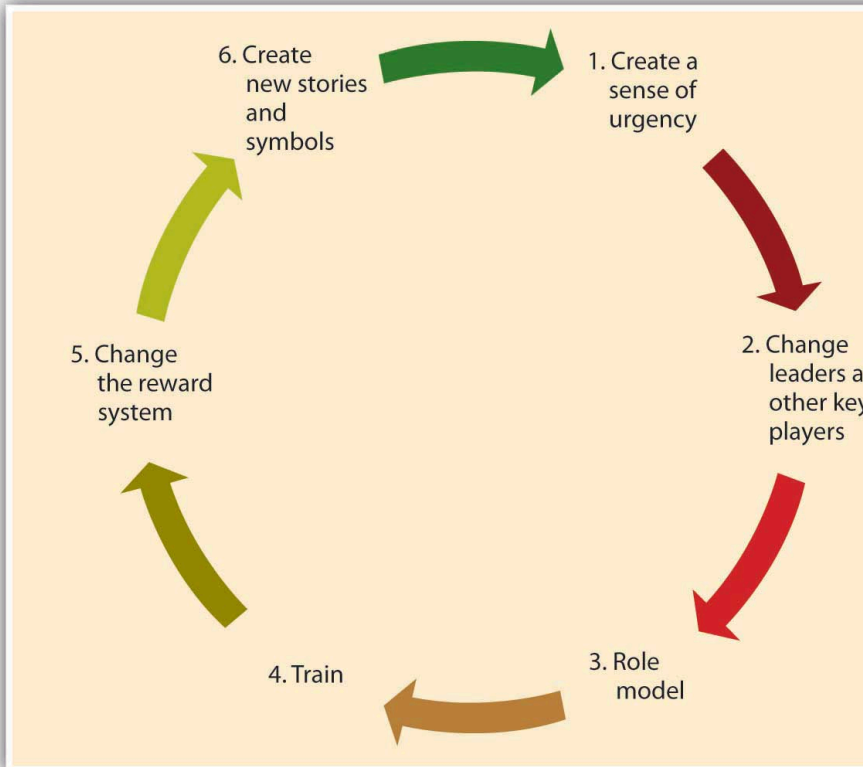
1. Understand the process of culture change.

## How Do Cultures Change?

As emphasized throughout this chapter, culture is a product of its founder's values, its history, and collective experiences. Hence, culture is part of a company's DNA and is resistant to change efforts. Unfortunately, many organizations realize that their current culture constitutes a barrier against organizational productivity and performance. Particularly when there is a mismatch between an organization's values and the demands of its environment, changing the culture becomes the key to the company turnaround.

Achieving culture change is challenging, and there are many companies that ultimately fail in this mission. Research and case studies of companies that successfully changed their culture indicate that the following six steps increase the chances of success (Schein, 1990).

Figure 3.15 Process of Culture Change



# Creating a Sense of Urgency

For the change effort to be successful, it is important to communicate the need for change to employees. One way of doing this is to create a sense of urgency on the part of employees, explaining to them why changing the fundamental way in which business is done is so important. In successful culture change efforts, leaders communicate with employees and present a case for culture change as the essential element that will lead the company to eventual success. As an example, consider the situation at IBM in 1993 when Lou Gerstner was brought in as CEO and chairman. After decades of dominating the market for mainframe computers, IBM was rapidly losing market share to competitors, and its efforts to sell personal computers—the original PC—were seriously undercut by cheaper “clones.” In the public’s estimation, the name IBM had become associated with obsolescence. Gerstner recalls that the crisis IBM was facing became his ally in changing the organization’s culture. Instead of spreading optimism about the company’s future, he used the crisis at every opportunity to get buy-in from employees (Gerstner, 2002).

# Changing Leaders and Other Key Players

A leader's vision is an important factor that influences how things are done in an organization. Thus, culture change often follows changes at the highest levels of the organization. Moreover, to implement the change effort quickly and efficiently, a company may find it helpful to remove managers and other powerful employees who are acting as a barrier to change. Because of political reasons, self-interest, or habits, managers may create powerful resistance to change efforts. In such cases, replacing these positions with employees and managers giving visible support to the change effort may increase the likelihood that the change effort succeeds. For example, when Robert Iger replaced Michael Eisner as CEO of the Walt Disney Company, one of the first things he did was to abolish the central planning unit, which was staffed by people close to ex-CEO Eisner. This department was viewed as a barrier to creativity at Disney and its removal from the company was helpful in ensuring the innovativeness of the company culture (McGregor, et. al., 2007).

## Role Modeling

Role modeling is the process by which employees modify their own beliefs and behaviors to reflect those of the leader (Kark & Van

Dijk, 2007). CEOs can model the behaviors that are expected of employees to change the culture because these behaviors will trickle down to lower-level employees. For example, when Robert Iger took over Disney, to show his commitment to innovation, he personally became involved in the process of game creation, attended summits of developers, and gave feedback to programmers about the games. Thus, he modeled his engagement in the idea creation process. In contrast, the modeling of inappropriate behavior from the top will lead to the same behavior trickling down to lower levels. A recent example to this type of role modeling is the scandal involving Hewlett-Packard board members. In 2006, when board members were suspected of leaking confidential company information to the press, the company's top-level executives hired a team of security experts to find the source of the leak. The investigators sought the phone records of board members, looking for links to journalists. For this purpose, they posed as board members and called phone companies to obtain itemized home phone records of board members and journalists. When the investigators' methods came to light, HP's chairman and four other top executives faced criminal and civil charges. When such behavior is modeled at top levels, it is likely to have an adverse effect on the company culture (Barron, 2007).

## Training

Well-crafted training programs may be instrumental in bringing about culture change by teaching employees the new norms and behavioral styles. For example, after the space shuttle *Columbia*



disintegrated on reentry from a February 2003 mission, NASA decided to change its culture to become more safety sensitive and minimize decision-making errors that lead to unsafe behaviors. The change effort included training programs in team processes and cognitive bias awareness. Similarly, when auto repairer Midas felt the need to change its culture to be more committed to customers, they developed a program to train employees to be more familiar with customer emotions and connect better with them. Customer reports have been overwhelmingly positive in stores that underwent this training.<sup>1</sup>

## Changing the Reward System

The criteria with which employees are rewarded and punished have a powerful role in determining the cultural values of an organization. Switching from a commission-based incentive structure to a straight salary system may be instrumental in bringing about customer focus among sales employees. Moreover, by rewarding and promoting employees who embrace the company's new values and promoting these employees, organizations can make sure that changes in culture have a lasting effect. If the company wants to develop a team-oriented culture where employees collaborate with one another, then using individual-based incentives may backfire. Instead, distributing bonuses to intact teams might be more successful in bringing about culture change.

# Creating New Symbols and Stories

Finally, the success of the culture change effort may be increased by developing new rituals, symbols, and stories. Continental Airlines is a company that successfully changed its culture to be less bureaucratic and more team-oriented in 1990s. One of the first things management did to show employees that they really meant to abolish many of the company's detailed procedures and create a culture of empowerment was to burn the heavy 800-page company policy manual in their parking lot. The new manual was only 80 pages. This action symbolized the upcoming changes in the culture and served as a powerful story that circulated among employees. Another early action was redecorating waiting areas and repainting all their planes, again symbolizing the new order of things (Higgins & McAllester, 2004). By replacing the old symbols and stories, the new symbols and stories will help enable the culture change and ensure that the new values are communicated.

## *Key Takeaway*

Organizations need to change their culture to respond to changing conditions in the environment, to remain competitive, and to avoid complacency or stagnation. Culture change often begins by the creation of a sense of urgency. Next, a change of leaders and other key players may enact change and serve as effective role models of new behavior. Training can also be targeted toward fostering

these new behaviors. Reward systems are changed within the organization. Finally, the organization creates new stories and symbols. Successful culture change requires managers that are proficient at all of the P-O-L-C functions. Creating and communicating a vision is part of planning; leadership and role modeling are part of leading; designing effective reward systems is part of controlling; all of which combine to influence culture, a facet of organizing.

## *Exercises*

1. Can new employees change a company's culture? If so, how?
2. Are there any conditions under which change is not possible? If so, what would such conditions be?
3. Have you ever observed a change process at an organization you were involved with? If so, what worked well and what didn't?
4. What recommendations would you have for someone considering a major change of culture within their own organization?

<sup>1</sup>BST to guide culture change effort at NASA. (2004 June). *Professional Safety*, 49, 16; J. B. (2001, June). *The Midas touch. Training*, 38, 26.

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## 3.7 Developing Your Personal Skills: Learning to Fit In

### *Learning Objectives*

1. Understand what you can proactively do to understand a new organizational environment.
2. Some guidelines for proactive onboarding.

## Before You Join

How do you find out about a company's culture before you join? Here are several tips that will allow you to more accurately gauge the culture of a company you are interviewing with.

First, *do your research*. Talking to friends and family members who are familiar with the company, doing an online search for news articles about the company, browsing the company's Web site, and reading its mission statement would be a good start.

Second, *observe the physical environment*. Do people work in cubicles or in offices? What is the dress code? What is the building

structure? Do employees look happy, tired, or stressed? The answers to these questions are all pieces of the puzzle.

Third, *read between the lines*. For example, the absence of a lengthy employee handbook or detailed procedures might mean that the company is more flexible and less bureaucratic.

Fourth, *reflect on how you are treated*. The recruitment process is your first connection to the company. Were you treated with respect? Do they maintain contact with you or are you being ignored for long stretches at a time?

Fifth, *ask questions*. What happened to the previous incumbent of this job? What does it take to be successful in this firm? What would their ideal candidate for the job look like? The answers to these questions will reveal a lot about the way they do business.

Finally, *listen to your gut*. Your feelings about the place in general, and your future manager and coworkers in particular, are important signs that you should not ignore (Daniel & Brandon, 2006; Sacks, 2005).

## You've Got a New Job! Now How Do You Get on Board?

- *Gather information*. Try to find as much about the company and the job as you can before your first day. After you start working, be a good observer, gather information, and read as much as you can to understand your job and the company. Examine how people are interacting, how they dress, and how

they act, in order to avoid behaviors that might indicate to others that you are a misfit.

- *Manage your first impression.* First impressions may endure, so make sure that you dress properly, are friendly, and communicate your excitement to be a part of the team. Be on your best behavior!
- *Invest in relationship development.* The relationships you develop with your manager and with coworkers will be essential for you to adjust to your new job. Take the time to strike up conversations with them. If there are work functions during your early days, make sure not to miss them!
- *Seek feedback.* Ask your manager or coworkers how well you are doing and whether you are meeting expectations. Listen to what they are telling you and listen to what they are not saying. Then, make sure to act on any suggestions for improvement—you may create a negative impression if you consistently ignore the feedback you receive.
- *Show success early on.* To gain the trust of your new manager and colleagues, you may want to establish a history of success early. Volunteer for high-profile projects where you will be able to demonstrate your skills. Alternatively, volunteer for projects that may serve as learning opportunities or that may put you in touch with the key people in the company.

### *Key Takeaway*

There are a number of ways to learn about an organization's culture before you formally join it. Take the time to consider whether the culture you are observing seems like the right fit for you. Once you get a job, you can do key things to maximize your onboarding success.

## *Exercises*

1. What clues does your college or school give about its culture?
2. What are four things you could do today to learn more about an organization you are interested in?
3. Imagine that your good friend is starting a new job next week. What recommendations would you give your friend to help him or her do a great job onboarding into the organization?

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PART IV

# CHAPTER 4: THE ESSENTIALS OF CONTROL

4.1 The Essentials of Control

4.2 Case in Point: Newell Rubbermaid Leverages Cost Controls to Grow

4.3 Organizational Control

4.4 Types and Levels of Control

4.5 Financial Controls

4.6 Nonfinancial Controls

4.7 Lean Control

4.8 Crafting Your Balanced Scorecard



## 4.1 The Essentials of Control

Figure 4.1



Control lets managers monitor and regulate actions to align performance with expectations.

Samuel M. Livingston – [Mixer board](#) – CC BY 2.0.

## *What's in It for Me?*

Reading this chapter will help you do the following:

1. Understand what is meant by organizational control.
2. Differentiate among different levels, types, and forms of control.
3. Know the essentials of financial controls.
4. Know the essentials of nonfinancial controls.
5. Know the basics of lean control systems.
6. Craft a Balanced Scorecard for an organization or yourself.

This chapter helps you to understand the key elements of organizational control, often seen in the form of internal systems and processes, as they relate to the planning-organizing-leading-controlling (P-O-L-C) framework. While there are many possible forms and formats, organizational controls should serve two basic functions. First, they should help managers determine whether and why their strategy is achieving the desired results. Second, they should be an early warning system in cases where the organization is getting a little (or a lot) off track.

## Figure 4.2 The P-O-L-C Framework

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

## 4.2 Case in Point: Newell Rubbermaid Leverages Cost Controls to Grow

Newell Company grew to be a diversified manufacturer and marketer of simple household items, cookware, and hardware. In the early 1950s, Newell Company's business consisted solely of manufactured curtain rods that were sold through hardware stores and retailers like Sears. Since the 1960s, however, the company has diversified extensively through acquisitions of businesses for paintbrushes, writing pens, pots and pans, hairbrushes, and the like. Over 90% of its growth can be attributed to these many small acquisitions, whose performance Newell improved tremendously through aggressive restructuring and its corporate emphasis on cost cutting and cost controls. Usually within a year of the acquisition, Newell would bring in new leadership and install its own financial controller in the acquired unit. Then, three standard sets of controls were introduced: an integrated financial accounting system, a sales and order processing and tracking system, and a flexible manufacturing system. Once these systems were in place, managers were able to control costs by limiting expenses to those previously budgeted. Administration, accounting, and customer-related financial accounting aspects of the acquired business were also consolidated into Newell's corporate headquarters to further reduce and control costs.

While Newell Company's 16 different lines of business may appear quite different, they all share the common characteristics of being staple manufactured items sold primarily through volume retail channels like Wal-Mart, Target, and Kmart. Because Newell operates each line of business autonomously (separate manufacturing, research and development [R&D], and selling

responsibilities for each), it is perhaps best described as pursuing a related, linked diversification strategy. The common linkages are both internal (accounting systems, product merchandising skills, and acquisition competency) and external (distribution channel of volume retailers). Beyond its internal systems and processes, Newell was also able to control costs through outcome controls. That is, business managers were paid a bonus based on the profitability of their particular unit—in fact, the firm’s strategy is to achieve profits, not simply growth at the expense of profits. Newell managers could expect a base salary equal to the industry average but could earn bonuses ranging from 35% to 100% based on their rank and unit profitability.

In 1999, Newell acquired Rubbermaid, a U.S.-based manufacturer of flexible plastic products like trash cans, reheatable and freezable food containers, and a broad range of other plastic storage containers designed for home and office use. While Rubbermaid was highly innovative (over 80% of its growth has come from internal new product development), it had difficulty controlling costs and was losing ground against powerful customers like Wal-Mart. Newell believed that the market power it wielded with retailers like Wal-Mart would help it turn Rubbermaid’s prospects around. The acquisition deal between these two companies resulted in a single company that was twice as big and became known as Newell Rubbermaid Inc. (NYSE: NWL). In 2010, *Fortune* named Newell Rubbermaid the number 7 “Most Admired Company” in the home equipment and furnishings category.

Case written based on information retrieved April 3, 2010, from [http://www.bain.com/masteringthemerger/case\\_example\\_new\\_rbbmd\\_trans.asp](http://www.bain.com/masteringthemerger/case_example_new_rbbmd_trans.asp) and from the Newell Rubbermaid Web site: <http://www.newellrubbermaid.com/public/Our-Company/Our-History.aspx>.

## *Discussion Questions*

1. The controlling facet of the P-O-L-C framework introduces you to a variety of controls. What do other organizations you are familiar with do with regard to control that is similar to or different from what we see in the case of Newell?
2. What types of controls does Newell use?
3. Does Newell use behavioral controls? What are some examples?
4. Does Newell use outcome controls? What are some examples?
5. How do the controls Newell uses fit its strategy?
6. At the end of the case, how has Newell adjusted its strategy? What changes in controls has it made as a result?



## 4.3 Organizational Control

### *Learning Objectives*

1. Know what is meant by organizational control.
2. Recognize that controls have costs.
3. Understand the benefits of controls.

Up to this point you have probably become familiar with the planning, organizing, and leading components of the P-O-L-C framework. This section addresses the controlling component, often taking the form of internal systems and process, to complete your understanding of P-O-L-C. As you know, planning comprises all the activities associated with the formulation of your strategy, including the establishment of near- and long-term goals and objectives. Organizing and leading are the choices made about the way people work together and are motivated to achieve individual and group goals and objectives.

# What Is Organizational Control?

The fourth facet of P-O-L-C, organizational control, refers to the process by which an organization influences its subunits and members to behave in ways that lead to the attainment of organizational goals and objectives. When properly designed, such controls should lead to better performance because an organization is able to execute its strategy better (Kuratko, et. al., 2001). As shown in the the P-O-L-C framework figure, we typically think of or talk about control in a sequential sense, where controls (systems and processes) are put in place to make sure everything is on track and stays on track. Controls can be as simple as a checklist, such as that used by pilots, flight crews, and some doctors (The Health Care Blog, 2008). Increasingly, however, organizations manage the various levels, types, and forms of control through systems called *Balanced Scorecards*. We will discuss these in detail later in the chapter.

Organizational control typically involves four steps: (1) establish standards, (2) measure performance, (3) compare performance to standards, and then (4) take corrective action as needed. Corrective action can include changes made to the performance standards—setting them higher or lower or identifying new or additional standards. Sometimes we think of organizational controls only when they seem to be absent, as in the 2008 meltdown of U.S. financial markets, the crisis in the U.S. auto industry, or the much earlier demise of Enron and MCI/Worldcom due to fraud and inadequate controls. However, as shown in the figure, good controls are relevant to a large spectrum of firms beyond Wall Street and big industry.

# The Need for Control in Not-for-Profit Organizations

We tend to think about controls only in the for-profit organization context. However, controls are relevant to a broad spectrum of organizations, including governments, schools, and charities. Jack Siegel, author of *A Desktop Guide for Nonprofit Directors, Officers, and Advisors: Avoiding Trouble While Doing Good*, outlines this top 10 list of financial controls that every charity should put in place:

Control 1—Require two signatures for checks written on bank and investment accounts. This prevents unapproved withdrawals and payments.

Control 2—The organization's bank statements should be reconciled on a monthly basis by someone who does not have signature authority over the accounts. This is a further check against unapproved withdrawals and payments.

Control 3—Since cash is particularly susceptible to theft, organizations should eliminate the use of cash to the extent possible.

Control 4—Organizations should only purchase goods from an approved list of vendors. This provides protection from phony invoices submitted by insiders.

Control 5—Many charities have discovered “ghost employees” on their payrolls. To minimize this risk, organizations should tightly control the payroll list by developing a system of reports between payroll/accounting and the human resources department.

Control 6—Organizations should require all otherwise reimbursable expenses to be preauthorized. Travel and entertainment expenses should be governed by a clearly articulated written policy that is provided to all employees.

Control 7—Physical inventories should be taken on a regular and periodic basis and then be reconciled against the inventories carried on the books. Besides the possible detection of theft, this control also provides a basis for an insurance claim in the case of a fire, flood, or other disaster.

Control 8—Every organization should develop an annual budgeting process. The nonprofit’s employees should prepare the budget, but the board should review and approve it.

Control 9—Organizations should use a competitive bidding process for purchases above a certain threshold. In reviewing bids, organizations should look for evidence of collusion.

Control 10—Organizations that regularly received grants with specific requirements should have someone who is thoroughly versed in grant administration.

Retrieved January 30, 2009, from

[http://www.charitygovernance.com/charity\\_governance/2007/10/ten-financial-c.html#more](http://www.charitygovernance.com/charity_governance/2007/10/ten-financial-c.html#more).

## The Costs and Benefits of Organizational Controls

Organizational controls provide significant benefits, particularly when they help the firm stay on track with respect to its strategy. External stakeholders, too, such as government, investors, and public interest groups have an interest in seeing certain types or levels of control are in place. However, controls also come at a cost. It is useful to know that there are trade-offs between having and not having organizational controls, and even among the different forms of control. Let's look at some of the predominant costs and benefits of organizational controls, which are summarized in the following figure.

# Costs

Controls can cost the organization in several areas, including (1) financial, (2) damage to culture and reputation, (3) decreased responsiveness, and (4) botched implementation. An example of financial cost is the fact that organizations are often required to perform and report the results of a financial audit. These audits are typically undertaken by external accounting firms, which charge a substantial fee for their services; the auditor may be a large firm like Accenture or KPMG, or a smaller local accounting office. Such audits are a way for banks, investors, and other key stakeholders to understand how financially fit the organization is. Thus, if an organization needs to borrow money from banks or has investors, it can only obtain these benefits if it incurs the monetary and staffing costs of the financial audit.

Controls also can have costs in terms of organization culture and reputation. While you can imagine that organizations might want to keep track of employee behavior, or otherwise put forms of strict monitoring in place, these efforts can have undesirable cultural consequences in the form of reduced employee loyalty, greater turnover, or damage to the organization's external reputation. Management researchers such as the late London Business School professor Sumantra Ghoshal have criticized theory that focuses on the economic aspects of man (i.e., assumes that individuals are always opportunistic). According to Ghoshal, "A theory that assumes that managers cannot be relied upon by shareholders can make managers less reliable (Ghoshal & Moral, 1996)." Such theory, he warned, would become a self-fulfilling prophecy.

Less theoretical are practical examples such as Hewlett-Packard's (HP) indictment on charges of spying on its own board of directors. In a letter to HP's board, director Tom Perkins said his accounts were "hacked" and attached a letter from AT&T explaining how the

breach occurred. Records of calls made from Perkins's home phone were obtained simply with his home phone number and the last four digits of his Social Security number. His long-distance account records were obtained when someone called AT&T and pretended to be Perkins, according to the letter from AT&T (IN, 2009).

The third potential cost of having controls is that they can afford less organizational flexibility and responsiveness. Typically, controls are put in place to prevent problems, but controls can also create problems. For instance, the Federal Emergency Management Agency (FEMA) is responsible for helping people and business cope with the consequences of natural disasters, such as hurricanes. After Hurricane Katrina devastated communities along the U.S. Gulf Coast in 2005, FEMA found that it could not provide prompt relief to the hurricane victims because of the many levels of financial controls that it had in place (US Government Printing Office, 2006).

The fourth area of cost, botched implementation, may seem obvious, but it is more common than you might think (or than managers might hope). Sometimes the controls are just poorly understood, so that their launch creates significant unintended, negative consequences. For example, when Hershey Foods put a new computer-based control system in place in 1999, there were so many problems with its installation that it was not able to fulfill a large percentage of its Halloween season chocolate sales that year. It did finally get the controls in working order, but the downtime created huge costs for the company in terms of inefficiencies and lost sales (Greenspun, 2009). Some added controls may also interfere with others. For instance, a new quality control system may improve product performance but also delay product deliveries to customers.

# Benefits

Although organizational controls come at some cost, most controls are valid and valuable management tools. When they are well designed and implemented, they provide at least five possible areas of benefits, including (1) improved cost and productivity control, (2) improved quality control, (3) opportunity recognition, (4) better ability to manage uncertainty and complexity, and (5) better ability to decentralize decision making. Let's look at each one of these benefits in turn.

## Summary of Control Costs and Benefits

- Key Costs
  - Financial costs—direct (i.e., paying for an accountant for an audit) and indirect (i.e., people such as internal quality control the organization employs whose primary function is related to control).



- Culture and reputation costs—the intangible costs associated with any form of control. Examples include damaged relationships with employees, or tarnished reputation with investors or government.
  - Responsiveness costs—downtime between a decision and the actions required to implement it due to compliance with controls.
  - Poorly implemented controls—implementation is botched or the implementation of a new control conflicts with other controls.
- Key Benefits
    - Cost and productivity control—ensures that the firm functions effectively and efficiently.
    - Quality control—contributes to cost control (i.e., fewer defects, less waste), customer satisfaction (i.e., fewer returns), and greater sales (i.e., repeat customers and new customers).
    - Opportunity recognition—helps managers identify and isolate the source of positive surprises, such as a new growth market. Though opportunities can also be found in internal comparisons of cost control and productivity across units.
    - Manage uncertainty and complexity—keeps the organization focused on its strategy, and helps managers anticipate and detect negative surprises and respond opportunistically to

positive surprises.

- Decentralized decision making—allows the organization to be more responsive by moving decision making to those closest to customers and areas of uncertainty.

First, good controls help the organization to be efficient and effective by helping managers to control costs and productivity levels. Cost can be controlled using budgets, where managers compare actual expenses to forecasted ones. Similarly, productivity can be controlled by comparing how much each person can produce, in terms of service or products. For instance, you can imagine that the productivity of a fast-food restaurant like McDonald's depends on the speed of its order takers and meal preparers. McDonald's can look across all its restaurants to identify the target speed for taking an order or wrapping a burger, then measure each store's performance on these dimensions.

Quality control is a second benefit of controls. Increasingly, quality can be quantified in terms of response time (i.e., How long did it take you to get that burger?) or accuracy (Did the burger weigh one-quarter pound?). Similarly, Toyota tracks the quality of its cars according to hundreds of quantified dimensions, including the number of defects per car. Some measures of quality are qualitative, however. For instance, Toyota also tries to gauge how “delighted” each customer is with its vehicles and dealer service. You also may be familiar with quality control through the Malcolm Baldrige National Quality Program Award. The Baldrige award is given by the president of the United States to businesses—manufacturing and service, small and large—and to education, health care, and nonprofit organizations that apply and are judged to be outstanding in seven areas: leadership; strategic planning; customer and market focus; measurement, analysis, and

knowledge management; human resource focus; process management; and results (National Institute of Standards and Technology, 2009). Controlling—how well the organization measures and analyzes its processes—is a key criterion for winning the award. The Baldrige award is given to organizations in a wide range of categories and industries, from education to ethics to manufacturing.

The third area by which organizations can benefit from controls is opportunity recognition. Opportunities can come from outside of the organization and typically are the result of a surprise. For instance, when Nestlé purchased the Carnation Company for its ice cream business, it had also planned to sell off Carnation's pet food line of products. However, through its financial controls, Nestlé found that the pet food business was even more profitable than the ice cream, and kept both. Opportunities can come from inside the organization too, as would be the case if McDonald's finds that one of its restaurants is exceptionally good at managing costs or productivity. It can then take this learned ability and transfer it to other restaurants through training and other means.

Controls also help organizations manage uncertainty and complexity. This is a fourth area of benefit from well-designed and implemented controls. Perhaps the most easily understood example of this type of benefit is how financial controls help an organization navigate economic downturns. Without budgets and productivity controls in place, the organization might not know it has lost sales or expenses are out of control until it is too late.

# Control Criteria for the Baldrige National Quality Award

Measurement, Analysis, and Improvement of  
Organizational Performance: How Do You Measure,  
Analyze, and then Improve Organizational Performance? (45  
points)

Describe how your organization measures, analyzes,  
aligns, reviews, and improves its performance using data  
and information at all levels and in all parts of your  
organization. Describe how you systematically use the  
results of reviews to evaluate and improve processes.

Within your response, include answers to the following  
questions:

1. Performance Measurement
  1. How do you select, collect, align, and  
integrate data and information for tracking  
daily operations and for tracking overall  
organizational performance, including progress

relative to strategic objectives and action plans? What are your key organizational performance measures, including key short-term and longer-term financial measures? How do you use these data and information to support organizational decision making and innovation?

2. How do you select and ensure the effective use of key comparative data and information to support operational and strategic decision making and innovation?
3. How do you keep your performance measurement system current with business needs and directions? How do you ensure that your performance measurement system is sensitive to rapid or unexpected organizational or external changes?

## 2. Performance Analysis, Review, and Improvement

1. How do you review organizational performance and capabilities? What analyses do you perform to support these reviews and to ensure that the conclusions are valid? How do you use these reviews to assess organizational success, competitive performance, and progress relative to strategic objectives and action plans? How do you use these reviews to assess your organization's ability to respond rapidly to changing organizational needs and challenges in your operating environment?
2. How do you translate organizational performance review findings into priorities for

continuous and breakthrough improvement and into opportunities for innovation? How are these priorities and opportunities deployed to work group and functional-level operations throughout your organization to enable effective support for their decision making? When appropriate, how are the priorities and opportunities deployed to your suppliers, partners, and collaborators to ensure organizational alignment?

3. How do you incorporate the results of organizational performance reviews into the systematic evaluation and improvement of key processes?

Retrieved January 30, 2009, from  
<http://www.quality.nist.gov>.

The fifth area of benefit in organizational control is related to decentralized decision making. Organization researchers have long argued that performance is best when those people and areas of the organization that are closest to customers and pockets of uncertainty also have the ability (i.e., the information and authority) to respond to them (Galbraith, 1974). Going back to our McDonald's example, you can imagine that it would be hard to give a store manager information about her store's performance and possible choices if information about performance were only compiled at the city, region, or corporate level. With store-level performance tracking (or, even better, tracking of performance by the hour within a store), McDonald's gives store managers the information they need to respond to changes in local demand. Similarly, it equips McDonald's to give those managers the authority to make local

decisions, track that decision-making performance, and feed it back into the control and reward systems.

### *Key Takeaway*

This chapter introduced the basics of controls, the process by which an organization influences its subunits and members to behave in ways that lead to attaining organizational goals and objectives. When properly designed, controls lead to better performance by enabling the organization to execute its strategy better. Managers must weigh the costs and benefits of control, but some minimum level of control is essential for organizational survival and success.

### *Exercises*

1. What do properly conceived and implemented controls allow an organization to do?
2. What are three common steps in organizational control?
3. What are some of the costs of organizational controls?
4. What are some of the benefits of organizational controls?
5. How do managers determine when benefits outweigh costs?

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IN, retrieved January 30, 2009, from [http://i.n.com.com/pdf/ne/2006/perkins\\_letter.pdf](http://i.n.com.com/pdf/ne/2006/perkins_letter.pdf) HP Chairman Patricia Dunn defended this rather extreme form of control as legal, but the amount of damage to the firm’s reputation from these charges led the firm to discontinue the practice. It also prompted the resignation of several directors and corporate officers.<sup>1</sup>

Kuratko, D. F., Ireland, R. D., & Hornsby, J. S. (2001). Improving firm performance through entrepreneurial actions: Acordia’s corporate entrepreneurship strategy. *Academy of Management Executive*, 15(4), 60–71.

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## 4.4 Types and Levels of Control

### *Learning Objectives*

1. Know the difference between strategic and operational controls.
2. Understand the different types of controls.
3. Be able to differentiate between financial and nonfinancial controls.

Figure 4.4



Controls allow you to align the pieces with the big picture.

Jason7825 – [A 3D Jigsaw Puzzle](#) – public domain.

Recognizing that organizational controls can be categorized in many ways, it is helpful at this point to distinguish between two sets of controls: (1) strategic controls and (2) management controls, sometimes called operating controls (Harrison & St. John, 2002).

## Two Levels of Control:

# Strategic and Operational

Imagine that you are the captain of a ship. The strategic controls make sure that your ship is going in the right direction; management and operating controls make sure that the ship is in good condition before, during, and after the voyage. With that analogy in mind, strategic control is concerned with tracking the strategy as it is being implemented, detecting any problem areas or potential problem areas suggesting that the strategy is incorrect, and making any necessary adjustments (Venkataraman & Saravathy, 2001). Strategic controls allow you to step back and look at the big picture and make sure all the pieces of the picture are correctly aligned.

Ordinarily, a significant time span occurs between initial implementation of a strategy and achievement of its intended results. For instance, if you wanted to captain your ship from San Diego to Seattle you might need a crew, supplies, fuel, and so on. You might also need to wait until the weather lets you make the trip safely! Similarly, in larger organizations, during the time you are putting the strategy into place, numerous projects are undertaken, investments are made, and actions are undertaken to implement the new strategy. Meanwhile, the environmental situation and the firm's internal situation are developing and evolving. The economy could be booming or perhaps falling into recession. Strategic controls are necessary to steer the firm through these events. They must provide some means of correcting direction on the basis of intermediate performance and new information.

Operational control, in contrast to strategic control, is concerned with executing the strategy. Where operational controls are imposed, they function within the framework established by the strategy. Normally these goals, objectives, and standards are established for major subsystems within the organization, such as business units, projects, products, functions, and responsibility

centers (Matthews, 1999). Typical operational control measures include return on investment, net profit, cost, and product quality. These control measures are essentially summations of finer-grained control measures. Corrective action based on operating controls may have implications for strategic controls when they involve changes in the strategy.

## Types of Control

It is also valuable to understand that, within the strategic and operational levels of control, there are several types of control. The first two types can be mapped across two dimensions: level of proactivity and outcome versus behavioral. The following table summarizes these along with examples of what such controls might look like.

### Proactivity

Proactivity can be defined as the monitoring of problems in a way that provides their timely prevention, rather than after the fact

reaction. In management, this is known as feedforward control; it addresses what can we do ahead of time to help our plan succeed. The essence of feedforward control is to see the problems coming in time to do something about them. For instance, feedforward controls include preventive maintenance on machinery and equipment and due diligence on investments.

Table 4.1 Types and Examples of Control

Control Proactivity	Behavioral control	Outcome control
Feedforward control	Organizational culture	Market demand or economic forecasts
Concurrent control	Hands-on management supervision during a project	The real-time speed of a production line
Feedback control	Qualitative measures of customer satisfaction	Financial measures such as profitability, sales growth

# Concurrent Controls

The process of monitoring and adjusting ongoing activities and processes is known as concurrent control. Such controls are not necessarily proactive, but they can prevent problems from becoming worse. For this reason, we often describe concurrent control as real-time control because it deals with the present. An example of concurrent control might be adjusting the water temperature of the water while taking a shower.

# Feedback Controls

Finally, feedback controls involve gathering information about a completed activity, evaluating that information, and taking steps to improve the similar activities in the future. This is the least proactive of controls and is generally a basis for reactions. Feedback controls permit managers to use information on past performance to bring future performance in line with planned objectives.

# Control as a Feedback Loop

In this latter sense, all these types of control function as a feedback mechanism to help leaders and managers make adjustments in the strategy, as perhaps is reflected by changes in the planning, organizing, and leading components. This feedback loop is characterized in the following figure.

## Figure 4.5 Controls as Part of a Feedback Loop





Why might it be helpful for you to think of controls as part of a feedback loop in the P-O-L-C process? Well, if you are the entrepreneur who is writing the business plan for a completely new business, then you would likely start with the planning component and work your way to controlling—that is, spell out how you are going to tell whether the new venture is on track. However, more often, you will be stepping into an organization that is already operating, and this means that a plan is already in place. With the

plan in place, it may be then up to you to figure out the organizing, leading, or control challenges facing the organization.

## Outcome and Behavioral Controls

Controls also differ depending on what is monitored, outcomes or behaviors. Outcome controls are generally preferable when just one or two performance measures (say, return on investment or return on assets) are good gauges of a business's health. Outcome controls are effective when there's little external interference between managerial decision making on the one hand and business performance on the other. It also helps if little or no coordination with other business units exists.

Behavioral controls involve the direct evaluation of managerial and employee decision making, not of the results of managerial decisions. Behavioral controls tie rewards to a broader range of criteria, such as those identified in the Balanced Scorecard. Behavioral controls and commensurate rewards are typically more appropriate when there are many external and internal factors that can affect the relationship between a manager's decisions and organizational performance. They're also appropriate when managers must coordinate resources and capabilities across different business units.

# Financial and Nonfinancial Controls

Finally, across the different types of controls in terms of level of proactivity and outcome versus behavioral, it is important to recognize that controls can take on one of two predominant forms: financial and nonfinancial controls. Financial control involves the management of a firm's costs and expenses to control them in relation to budgeted amounts. Thus, management determines which aspects of its financial condition, such as assets, sales, or profitability, are most important, tries to forecast them through budgets, and then compares actual performance to budgeted performance. At a strategic level, total sales and indicators of profitability would be relevant strategic controls.

Without effective financial controls, the firm's performance can deteriorate. PSINet, for example, grew rapidly into a global network providing Internet services to 100,000 business accounts in 27 countries. However, expensive debt instruments such as junk bonds were used to fuel the firm's rapid expansion. According to a member of the firm's board of directors, PSINet spent most of its borrowed money "without the financial controls that should have been in place (Woolley, 2001)." With a capital structure unable to support its rapidly growing and financially uncontrolled operations, PSINet and 24 of its U.S. subsidiaries eventually filed for bankruptcy (PSINet, 2001). While we often think of financial controls as a form of outcome control, they can also be used as a behavioral control. For instance, if managers must request approval for expenditures over a budgeted amount, then the financial control also provides a behavioral control mechanism as well.

Increasing numbers of organizations have been measuring customer loyalty, referrals, employee satisfaction, and other such performance areas that are not financial. In contrast to financial

controls, nonfinancial controls track aspects of the organization that aren't immediately financial in nature but are expected to lead to positive performance outcomes. The theory behind such nonfinancial controls is that they should provide managers with a glimpse of the organization's progress well before financial outcomes can be measured (Ittner & Larcker, 2003). And this theory does have some practical support. For instance, GE has found that highly satisfied customers are the best predictor of future sales in many of its businesses, so it regularly tracks customer satisfaction.

### *Key Takeaway*

Organizational controls can take many forms. Strategic controls help managers know whether a chosen strategy is working, while operating controls contribute to successful execution of the current strategy. Within these types of strategy, controls can vary in terms of proactivity, where feedback controls were the least proactive. Outcome controls are judged by the result of the organization's activities, while behavioral controls involve monitoring how the organization's members behave on a daily basis. Financial controls are executed by monitoring costs and expenditure in relation to the organization's budget, and nonfinancial controls complement financial controls by monitoring intangibles like customer satisfaction and employee morale.

## Exercises

1. What is the difference between strategic and operating controls? What level of management would be most concerned with operating controls?
2. If feedforward controls are the most proactive, then why do organizations need or use feedback controls?
3. What is the difference between behavioral and outcome controls?
4. What is the difference between nonfinancial and financial controls? Is a financial control a behavioral or an outcome control?

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## 4.5 Financial Controls

### *Learning Objectives*

1. Understand the nature of financial controls.
2. Know how a balance sheet works.
3. Know how an income profit and loss statement works.
4. See the sources of cash flow.

As we discussed in the previous section, financial controls are a key element of organizational success and survival. There are three basic financial reports that all managers need to understand and interpret to manage their businesses successfully: (1) the balance sheet, (2) the income/profit and loss (P&L) statement, and (3) the cash flow statement. These three reports are often referred to collectively as “the financials.” Banks often require a projection of these statements to obtain financing.

Figure 4.6



Financial controls tell you when good organizational performance is reflected in good financial outcomes.

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Financial controls provide the basis for sound management and allow managers to establish guidelines and policies that enable the business to succeed and grow. Budgeting, for instance, generally refers to a simple listing of all planned expenses and revenues. On the basis of this listing, and a starting balance sheet, you can project a future one. The overall budget you create is a monthly or quarterly projection of what the balance sheet and income statement will look like but again based on your list of planned expenses and revenues.

While you do not need to be an accountant to understand this section, good managers have a good grasp of accounting fundamentals. You might want to open a window to [AccountingCoach.com](#) or a similar site as you work through this section to begin to build your accounting knowledge tool kit (Accounting Coach, 2008).



# The Nature of Financial Controls

Imagine that you are on the board of Success-R-Us, an organization whose financial controls are managed in an excellent manner. Each year, after the organization has outlined strategies to reach its goals and objectives, funds are budgeted for the necessary resources and labor. As money is spent, statements are updated to reflect how much was spent, how it was spent, and what it obtained. Managers, who report to the board, use these financial statements, such as an income statement or balance sheet, to monitor the progress of programs and plans. Financial statements provide management with information to monitor financial resources and activities. The income statement shows the results of the organization's operations, such as revenues, expenses, and profit or loss. The balance sheet shows what the organization is worth (assets) at a single point in time, and the extent to which those assets were financed through debt (liabilities) or owner's investment (equity).

Success-R-Us conducts financial audits, or formal investigations, to ensure that financial management practices follow generally accepted procedures, policies, laws, and ethical guidelines. In Success-R-Us, audits are conducted both internally—by members of the company's accounting department—and externally by Green Eyeshade Inc., an accounting firm hired for this purpose.

Financial ratio analysis examines the relationship between specific figures on the financial statements and helps explain the significance of those figures: By analyzing financial reports, the managers at Success-R-Us are able to determine how well the business is doing and what may need to be done to improve its financial viability.

While actual financial performance is always historical, Success-R-Us's proactive managers plan ahead for the problems the business

is likely to encounter and the opportunities that may arise. To do this, they use pro forma financials, which are projections; usually these are projected for three fiscal years. Being proactive requires reading and analyzing the financial statements on a regular basis. Monthly, and sometimes daily or weekly, financial analysis is preferred. (In the business world as a whole, quarterly is more common, and some organizations do this only once a year, which is not often enough.) The proactive manager has financial data available based on actual results and compares them to the budget. This process points out weaknesses in the business before they reach crisis proportion and allows the manager to make the necessary changes and adjustments before major problems develop.

Years ago, Success-R-Us experienced problems because its management style was insufficiently proactive. A reactive manager waits to react to problems and then solves them by crisis management. This type of manager goes from crisis to crisis with little time in between to notice opportunities that may become available. The reactive manager's business is seldom prepared to take advantage of new opportunities quickly. Businesses that are managed proactively are more likely to be successful, and this is the result that Success-R-Us is experiencing since it instituted a company-wide initiative to promote proactive controls.

Like most organizations, Success-R-Us uses computer software programs to do record keeping and develop financials. These programs provide a chart of accounts that can be individualized to the business and the templates for each account ledger, the general ledgers, and the financial reports. These programs are menu driven and user-friendly, but knowing how to input the data correctly is not enough. A manager must also know where to input each piece of data and how to analyze the reports compiled from the data. Widely accepted accounting guidelines dictate that if you have not learned a manual record-keeping system, you need to do this before attempting to use a computerized system.

# The Balance Sheet

The balance sheet is a snapshot of the business's financial position at a certain point in time. This can be any day of the year, but balance sheets are usually done at the end of each month. With a budget in hand, you project forward and develop pro forma statements to monitor actual progress against expectations.

As shown in the following table, this financial statement is a listing of total assets (what the business owns—items of value) and total liabilities (what the business owes). The total assets are broken down into subcategories of current assets, fixed assets, and other assets. The total liabilities are broken down into subcategories of current liabilities, long-term liabilities/debt, and owner's equity.

## Assets

Current assets are those assets that are cash or can be readily converted to cash in the short term, such as accounts receivable or inventory. In the balance sheet shown for Success-R-U's, the current assets are cash, petty cash, accounts receivable, inventory, and supplies.

## Table 4.2 Sample Balance Sheet

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Success-R-Us Balance Sheet  
December 31, 2009

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	\$12,300	Notes Payable	\$5,000
Petty Cash	100	Accounts Payable	35,900
		Wages Payable	14,600
Accounts Receivable	40,500	Interest Payable	2,900
Inventory	31,000	Warranty Liability	1,100
Supplies	5,300		
Total Current Assets	89,000	Total Current Liabilities	61,000
Investments	36,000	Long-term Liabilities	
		Notes Payable	20,000
Property, Plant and Equipment		Bonds Payable	400,000
Land	5,500	Total Long-term Liabilities	420,000
Land Improvements	6,500		
Buildings	180,000		
Equipment	201,000	Total Liabilities	481,000
Less Accum. Depreciation	(56,000)		
Prop., Plant, and Equipment net	337,000		
Intangible Assets		Stockholders' Equity	
Goodwill	105,000	Common Stocks	110,000
Trade Names	200,000	Retained Earnings	229,000
Total Intangible Assets	305,000	Less Treasury Stock	(50,000)
Other Assets	3,000		
Total Assets	\$770,000	Total Liability and Stockholder Equity	\$770,000

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Some business people define current assets as those the business

expects to use or consume within the coming fiscal year. Thus, a business's noncurrent assets would be those that have a useful life of more than 1 year. These include fixed assets and intangible assets.

Fixed assets are those assets that are not easily converted to cash in the short term; that is, they are assets that only change over the long term. Land, buildings, equipment, vehicles, furniture, and fixtures are some examples of fixed assets. In the balance sheet for Success-R-Us, the fixed assets shown are furniture and fixtures and equipment. These fixed assets are shown as less accumulated depreciation.

Intangible assets (net) may also be shown on a balance sheet. These may be goodwill, trademarks, patents, licenses, copyrights, formulas, and franchises. In this instance, net means the value of intangible assets minus amortization.

## Liabilities

Current liabilities are those coming due in the short term, usually the coming year. These are accounts payable; employment, income and sales taxes; salaries payable; federal and state unemployment insurance; and the current year's portion of multiyear debt. A comparison of the company's current assets and its current liabilities reveals its working capital. Many managers use an accounts receivable aging report and a current inventory listing as tools to help them in management of the current asset structure.

Long-term debt, or liabilities, may be bank notes or loans made to purchase the business's fixed asset structure. Long-term debt/liabilities come due in a period of more than 1 year. The portion of a

bank note that is not payable in the coming year is long-term debt/liability.

For example, Success-R-Us's owner may take out a bank note to buy land and a building. If the land is valued at \$50,000 and the building is valued at \$50,000, the business's total fixed assets are \$100,000. If \$20,000 is made as a down payment and \$80,000 is financed with a bank note for 15 years, the \$80,000 is the long-term debt.

## Owner's Equity

Owner's equity refers to the amount of money the owner has invested in the firm. This amount is determined by subtracting current liabilities and long-term debt from total assets. The remaining capital/owner's equity is what the owner would have left in the event of liquidation, or the dollar amount of the total assets that the owner can claim after all creditors are paid."

# The Income Profit and Loss Statement (P&L)

The profit and loss statement (P&L) shows the relation of income and expenses for a specific time interval. The income/P&L statement is expressed in a 1-month format, January 1 through January 31, or a quarterly year-to-date format, January 1 through March 31. This financial statement is cumulative for a 12-month fiscal period, at which time it is closed out. A new cumulative record is started at the beginning of the new 12-month fiscal period.

The P&L statement is divided into five major categories: (1) sales or revenue, (2) cost of goods sold/cost of sales, (3) gross profit, (4) operating expenses, and (5) net income. Let's look at each category in turn.

## Table 4.3 Sample Income Statement



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Success-R-Us Income Statement  
For the year ended December 31, 2009

Sales/Revenues (all on credit)	\$500,000
Cost of Goods Sold	380,000
Gross Profit	120,000
Operating Expenses	
Selling Expenses	35,000
Administrative Expenses	45,000
Total Operating Expenses	80,000
Operating Income	40,000
Interest Expense	12,000
Income before Taxes	28,000
Income Tax Expense	5,000
Net Income after Taxes	23,000

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## Sales or Revenue

The sales or revenue portion of the income statement is where the retail price of the product is expressed in terms of dollars times the number of units sold. This can be product units or service units. Sales can be expressed in one category as total sales or can be broken out into more than one type of sales category: car sales, part sales, and service sales, for instance. In our Success-R-Us example, the company sold 20,000 books at a retail price of \$25 each, for total revenues of \$500,000. Because Success-R-Us sells all of its books on

credit (i.e., you can charge them on your credit card), the company does not collect cash for these sales until the end of the month, or whenever the credit card company settles up with Success-R-Us.

## Cost of Goods Sold/Cost of Sales

The cost of goods sold/sales portion of the income statement shows the cost of products purchased for resale, or the direct labor cost (service person wages) for service businesses. Cost of goods sold/sales also may include additional categories, such as freight charges cost or subcontract labor costs. These costs also may be expressed in one category as total cost of goods sold/sales or can be broken out to match the sales categories: car purchases, parts, purchases, and service salaries, for example.

Breaking out sales and cost of goods sold/sales into separate categories can have an advantage over combining all sales and costs into one category. When you break out sales, you can see how much each product you have sold costs and the gross profit for each product. This type of analysis enables you to make inventory and sales decisions about each product individually.

# Gross Profit

The gross profit portion of the income/P&L statement tells the difference between what you sold the product or service for and what the product or service cost you. The goal of any business is to sell enough units of product or service to be able to subtract the cost and have a high enough gross profit to cover operating expenses, plus yield a net income that is a reasonable return on investment. The key to operating a profitable business is to maximize gross profit.

If you increase the retail price of your product too much above the competition, you might lose units of sales to the competition and not yield a high enough gross profit to cover your expenses. However, if you decrease the retail price of your product too much below the competition, you might gain additional units of sales but not make enough gross profit per unit sold to cover your expenses.

While this may sound obvious, a carefully thought out pricing strategy maximizes gross profit to cover expenses and yield a positive net income. At a very basic level, this means that prices are set at a level where marginal and operating costs are covered. Beyond this, pricing should carefully be set to reflect the image you want portrayed and, if desired, promote repeat business.

# Operating Expenses

The operating expense section of the income/P&L statement is a measurement of all the operating expenses of the business. There are two types of expenses, fixed and variable. Fixed expenses are those expenses that do not vary with the level of sales; thus, you will have to cover these expenses even if your sales are less than the expenses. The entrepreneur has little control over these expenses once they are set. Some examples of fixed expenses are rent (contractual agreement), interest expense (note agreement), an accounting or law firm retainer for legal services of X amount per month for 12 months, and monthly charges for electricity, phone, and Internet connections.

Variable expenses are those expenses that vary with the level of sales. Examples of variable expenses include bonuses, employee wages (hours per week worked), travel and entertainment expenses, and purchases of supplies. (Note: categorization of these may differ from business to business.) Expense control is an area where the entrepreneur can maximize net income by holding expenses to a minimum.

## Net Income

The net income portion of the income/P&L statement is the bottom line. This is the measure of a firm's ability to operate at a profit.

Many factors affect the outcome of the bottom line. Level of sales, pricing strategy, inventory control, accounts receivable control, ordering procedures, marketing of the business and product, expense control, customer service, and productivity of employees are just a few of these factors. The net income should be enough to allow growth in the business through reinvestment of profits and to give the owner a reasonable return on investment.

## The Cash Flow Statement

The cash flow statement is the detail of cash received and cash expended for each month of the year. A projected cash flow statement helps managers determine whether the company has positive cash flow. Cash flow is probably the most immediate indicator of an impending problem, since negative cash flow will bankrupt the company if it continues for a long enough period. If company's projections show a negative cash flow, managers might need to revisit the business plan and solve this problem.

You may have heard the joke: "How can I be broke if I still have checks in my check book (or if I still have a debit/credit card, etc.)?" While perhaps poor humor, many new managers similarly think that the only financial statement they need to manage their business effectively is an income/P&L statement; that a cash flow statement is excess detail. They mistakenly believe that the bottom-line profit is all they need to know and that if the company is showing a profit, it is going to be successful. In the long run, profitability and cash flow have a direct relationship, but profit and cash flow do not mean the same thing in the short run. A business can be operating at a

loss and have a strong cash flow position. Conversely, a business can be showing an excellent profit but not have enough cash flow to sustain its sales growth.

The process of reconciling cash flow is similar to the process you follow in reconciling your bank checking account. The cash flow statement is composed of: (1) beginning cash on hand, (2) cash receipts/deposits for the month, (3) cash paid out for the month, and (4) ending cash position.

### *Key Takeaway*

The financial controls provide a blueprint to compare against the actual results once the business is in operation. A comparison and analysis of the business plan against the actual results can tell you whether the business is on target. Corrections, or revisions, to policies and strategies may be necessary to achieve the business's goals. The three most important financial controls are: (1) the balance sheet, (2) the income statement (sometimes called a profit and loss statement), and (3) the cash flow statement. Each gives the manager a different perspective on and insight into how well the business is operating toward its goals. Analyzing monthly financial statements is a must since most organizations need to be able to pay their bills to stay in business.

## *Exercises*

1. What are financial controls? In your answer, describe how you would go about building a budget for an organization.
2. What is the difference between an asset and a liability?
3. What is the difference between the balance sheet and an income statement? How are the balance sheet and income statement related?
4. Why is it important to monitor an organization's cash flow?

## References

Accounting Coach, retrieved October 21, 2008, from <http://www.accountingcoach.com>.

## 4.6 Nonfinancial Controls

### *Learning Objectives*

1. Become familiar with nonfinancial controls.
2. Learn about common mistakes associated with nonfinancial controls.
3. Be able to devise possible solutions to common mistakes in nonfinancial controls.

If you have ever completed a customer satisfaction survey related to a new product or service purchase, then you are already familiar with nonfinancial controls. Nonfinancial controls are defined as controls where nonfinancial performance outcomes are measured. Why is it important to measure such outcomes? Because they are likely to affect profitability in the long term.

Figure 4.7





Customer satisfaction is an increasingly important metric in strong nonfinancial controls.

Epic Fireworks – [Customer Satisfaction Guaranteed](#) 😊 – CC BY 2.0.

How do we go about identifying nonfinancial controls? In some areas it is easy to do, and in others more difficult. For instance, if Success-R-Us were having trouble retaining employees (meaning that turnover is high), it might be incurring higher recruiting and training costs and lower customer satisfaction, as a result. Some possible nonfinancial controls are described next.

# Examples of Nonfinancial Performance Controls

- Human Resources
  - Employee satisfaction
  - Average tenure
  - Turnover
- Marketing
  - New products launched
  - Customer satisfaction
  - Brand power
- Production
  - Number of defects
  - Product returns
  - Capacity utilization
- Purchasing
  - New products introduced by suppliers
  - Quality of purchased inputs

- Research and Development
  - New patents
  - Number of employees with PhDs
- Customer Service
  - Average complaint response time
  - Average wait time

## Common Mistakes with Nonfinancial Controls

In a review of current nonfinancial control practices, Harvard professors Chris Ittner and David Larcker commented, “Tracking things like customer satisfaction and employee turnover can powerfully supplement traditional bookkeeping. Unfortunately, most companies botch the job (Ittner & Larcker, 2003).”

Ittner and Larcker somewhat cynically conclude their study by stating, “The original purpose of nonfinancial performance measures was to fill out the picture provided by traditional accounting. Instead, such measures have become a shabby substitute for financial performance (Ittner & Larcker, 2003).” However, research also shows that those firms that put these

nonfinancial controls in place, and can validate them, earn much higher profits than those that don't (Ittner & Larcker, 2003). With the aim of working toward an understanding of how to put such controls into place, let's first look at common mistakes that organizations make.

## Not Using Nonfinancial Controls

While poorly conceived and implemented nonfinancial controls are certainly a cost for organizations, such ineptness is no defense for not including them in every modern organization's system of controls. If management were a poker game, then the ability to use nonfinancial controls would be a table stake in the game—that is, you only get to play if you have skills with them. The world is simply changing too fast, and competitors' capabilities are evolving too quickly, such that managers who relied only on financial controls would soon find their organizations in trouble. You can help us come up with plenty of examples here, but let's simply look at the relationship between customer satisfaction and a retail store's sales. A dissatisfied customer is hard to get back (and may have been dissatisfied enough to leave the store before even making that first purchase)!

While interest in nonfinancial controls is exploding, it seems somewhat disappointing that they aren't living up to the job. Why do so many companies appear to misunderstand how to set and use

nonfinancial controls effectively? Let's take a look at four additional top mistakes Ittner and Larcker identified in their research.

## Not Linked to Strategy

This mistake appears to be a common one but its root cause—failure to adapt the control system to the specific strategy of the organization—is not obvious. Growth in interest in nonfinancial controls has led to widespread adoption of such systems as the Balanced Scorecard, Performance Prism, or the Intellectual Capital Navigator. However, because these systems are complex, managers tend to put them in place without tailoring them to the specific needs and characteristics of their organization.

Several things can go wrong when nonfinancial controls are not linked to the strategy. First, control systems tend to be tied to reward systems, and if managers and employees are being paid based on the achievement of certain nonstrategic, nonfinancial outcomes, then the firm's strategy and, hence, performance, could suffer. Second, if the controls are not linked to the strategy, or the linkages are unclear, then managers do not really understand which nonfinancial controls are the most important. This leads us to the second common mistake.

# Failing to Validate the Links

There are two big challenges that organizations face when trying to use nonfinancial controls. First, nonfinancial controls are indirectly related to financial performance; the relationship is like a sequence of nonfinancial outcomes that cascade down to financial performance. For instance, (1) good employee recruiting leads to (2) satisfied employees, which leads to (3) an employee base that creates value, which leads to (4) satisfied customers, which leads to (5) profitable customer buying patterns, which lead to (6) good profitability. Yikes! You can see how these six nonfinancial outcomes might lead to good financial performance, but you can also imagine that it might be challenging to identify and manage the inputs to each step.

The second challenge is, once you've taken the step of identifying these linkages, to show that the linkages actually exist. However, while more companies are putting such models into place, few are collecting the information to test and validate the actual relationships in their organization. In fact, Ittner and Larcker found that less than a quarter of the firms that they surveyed actually did any formal validation of the nonfinancial model they had developed.

You can imagine the possible problems that might be created with such an unvalidated system. For one, the organization might be investing in all these steps, without any evidence of their effectiveness. Worse, some of the steps might actually lead to lower performance—unfortunately, without validation, managers just don't know. For example, an organization might believe that better technology in a product leads to more sales. If this technology also leads to a higher-cost product, and customers are very price-sensitive, then the new technology nonfinancial control could lead to worse financial performance.

# Failing to Set Appropriate Performance Targets

The third common area of weakness in the use of nonfinancial controls is somewhat related to the second. Our example with technology shows this relationship well. For instance, managers might not have validated the link between better technology and downstream customer purchasing preferences; or, technology might have been important, but only up to the point that it did not affect product price. So, while technology was a valid part of our nonfinancial controls, we also need to consider the appropriate level of technology—that is, set the right nonfinancial objective for level of technology, customer service, or whatever nonfinancial control is of interest.

You can imagine that a firm might want to set high goals, and therefore control, for such things as customer satisfaction or employee turnover. But you can probably also imagine what the costs might be of getting 100% customer satisfaction or zero employee turnover. At some point, you have to make some cost-benefit decisions unless your resources (time, money, etc.) are unlimited.

Failing to set appropriate performance targets can take on another form. In such cases, instead of setting inappropriate nonfinancial controls and related targets, the organization simply has set too many (Brown, 1996). This can happen when a new control system is put in place, but the old one is not removed. Just as often, it can occur because management has not made the hard choices about which nonfinancial controls are most important and invested in validating their usage.

# Measurement Failure

We have seen so far that the first three common failings are (1) failure to tie nonfinancial controls to the strategy, (2) failure to validate the relationships between nonfinancial and financial controls, and (3) failure to set the appropriate nonfinancial control targets. The fourth failing is somewhat technical, but it also relates to validity and validation—that is, in many cases, an inappropriate measure is used to assess whether a targeted nonfinancial control is being achieved.

This can happen for a number of reasons. First, different parts of the business may assess customer satisfaction differently. This makes it very hard to evaluate consistently the relationship between customer satisfaction (a nonfinancial control) and financial performance. Second, even when a common basis for evaluation is used, the meaning may not be clear in the context of how it is measured. For example, if you created a simple survey of customer satisfaction, where you were scored on a range from 1 (satisfied) to 7 (unsatisfied), what does each individual score between 1 and 7 mean? Finally, sometimes the nonfinancial control or objective is complex. Customer or employee satisfaction, for instance, are not necessarily easily captured on a scale of 1 to 7. Now imagine trying to introduce controls for leadership ability (i.e., we know if we have strong leaders, they make good choices, which eventually lead to good financial performance) or innovativeness (i.e., cool products lead to more customer enthusiasm, which eventually leads to financial performance). Such intangibles are extremely difficult to measure and to track.



# Possible Solutions

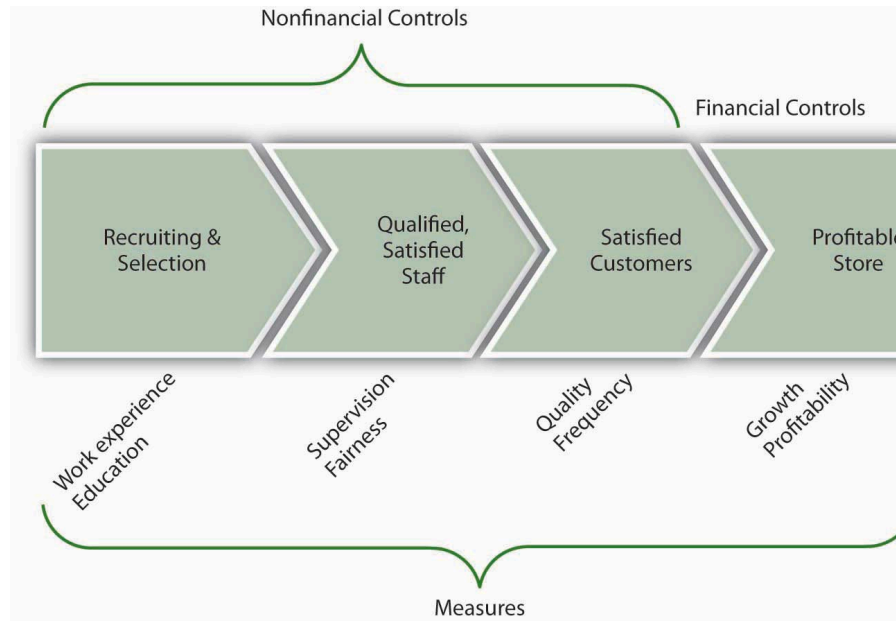
Now that you have an understanding of the common challenges and mistakes that organizations face when working with nonfinancial controls, including the omission of them entirely, you have the foundation for understanding how to use them effectively. For organizations that manage well with nonfinancial controls, the benefits definitely outweigh the costs. Since we outlined five possible areas for mistakes, let's work briefly through five possible solution areas.

## Use Nonfinancial Controls

As we mentioned earlier in this section, the delayed and historic nature of financial controls makes it risky to rely on them alone. Step back and reflect on the organization's strategy, then pick one or several nonfinancial controls such as customer or employee satisfaction as a starting point. It is critical that you start with a conceptual model using simple boxes and arrows in terms of what nonfinancial control leads to another, and so on.

The following figure shows a working model of these relationships for a retail store that sells unique products. This leads us to our second solution.

Figure 4.8 Sample Mix of Nonfinancial and Financial Controls



# Tie the Controls to the Strategy

Be sure to confirm that whichever nonfinancial controls are in place, they reflect and reinforce the unique strategy of the

organization. This also should remind you that, if the strategy ever changes, you should go back and revalidate the links between the nonfinancial controls and the strategy. For instance, in our retail store example, part of the strategy is to sell unique products, which means that employees with particular work experience and education may provide better customer service than inexperienced employees. If the store changed its strategy to sell more generic products, however, it might not need such experienced or educated employees anymore.

## Validate the Links Between Nonfinancial and Financial Controls

As you recall, organizations often use more than one nonfinancial control with the assumption that they cascade down to bottom-line financial performance. Of course, when there are fewer nonfinancial controls, it is easier to detect relationships among them. Regardless, with information collected about the controls, management must seek to use simple statistical techniques to verify the causal relationship between one control and another, and eventually financial performance. For instance, if nonfinancial controls were functioning as assumed, you might find that when employees are more satisfied, customers are more satisfied, and when both are more satisfied, more higher-profit-margin products

are sold. If such relationships can't be proved, then managers must revisit their choice of nonfinancial controls.

## Set Appropriate Performance Targets

Extending the prior example, you would want to be sure that you set employee and customer satisfaction control targets appropriately. Assuming that you validated the linkages, while it might be nice to reach 100% satisfaction levels across employees and customers, it might not be cost-effective. This does not mean that you abandon the use of such controls; instead you must determine whether 90% satisfaction (or some other number) still leads to greater product sales.

# Validate the Performance Measures

Finally, make sure that what you ultimately measure fits well with the control objectives. For instance, with our retail store example, would you measure work experience by the number of years that an applicant has worked? Or would you want experience with a particular type of product or service? Similarly, with regard to education, you would want to make a choice as to measuring grade-point average, standardized test score, or major. As a reminder, this type of validation is relevant to nonfinancial and financial measures alike. For instance, if our hypothetical store's sales are growing, but profitability is going down, then we would want to figure out why these financial controls aren't painting the same picture. For example, it might be that we've hired more salespeople, who help us sell more, but that we are not selling enough to cover the additional costs of the added people's salaries. These examples should help you see the point about using the right measure.

## *Key Takeaway*

Nonfinancial controls, such as those related to employee satisfaction, customer service, and so on, are an important and increasingly applied form of organizational control. While firms that use nonfinancial controls well also perform much better than firms that don't use them, there is a plethora of managerial mistakes made with regard to their conceptualization, implementation, or both. Beyond simply

using nonfinancial controls, best practices around such controls include aligning them with the strategy, validating the links between nonfinancial controls and financial controls, setting appropriate control performance targets, and confirming the right measure of the desired control.

## Exercises

1. What are nonfinancial controls? Name some examples.
2. What should be the relationship between nonfinancial and financial controls?
3. What are some common mistakes made by managers with regard to nonfinancial controls?
4. What are some solutions to the common mistakes you identified?

## References

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## 4.7 Lean Control

### *Learning Objectives*

1. Know what is meant by lean controls, and why the subject can be confusing.
2. Understand the application of lean.
3. Know the five core principals of lean.

Lean control, or simply lean, has become an immensely popular business control and improvement methodology in recent years. Lean control is a highly refined example of nonfinancial controls in action. Lean is a system of nonfinancial controls used to improve product and service quality and decrease waste. Research suggests that up to 70% of manufacturing firms are using some form of lean in their business operations (What They Think, 2008). Lean was initially focused on improving manufacturing operations but is now used to improve product development, order processing, and a variety of other nonmanufacturing processes (sometimes called “lean in the office”).

## What Is Meant by Lean

# Control?

Lean's popularity has both resulted from, and been driven by, an explosion in the volume of lean-related educational resources. Amazon offers almost 1,800 books and other materials about lean, and Yahoo! hosts over 90 online discussion groups relating to lean. Colleges and universities, industry trade associations, and private consulting firms routinely offer courses, seminars, and conferences to explain what lean is and how to use it.

Lean control is a number of things. According to James Womack, "it is a process for measuring and reducing inventory and streamlining production. It is a means for changing the way a company measures plant performance. It is a knowledge-based system. It takes years of hard work, preparation and support from upper management. Lean is so named because it purports to use much less of certain resources (space, inventory, workers, etc.) than is used by normal mass-production systems to produce comparable output." The term came into widespread use with the 1990 publication of the book *The Machine That Changed the World*, by James P. Womack, Daniel T. Jones, and Daniel Roos (Womack, et. al., 1990).

This abundance of education resources on the topic of lean is actually a mixed blessing for managers who are just now becoming interested in lean. On the one hand, today's managers don't have to search far to find lean materials or programs. But the wealth of lean resources can also be a source of confusion for two main reasons. First, there is no universal definition of lean and little agreement about what the truly core principles of lean are. For instance, quality programs such as Six-Sigma, or even lean Six Sigma, are other titles competing for the "lean" intellectual space. Therefore, lean experts often approach the subject from differing perspectives and describe lean in different ways. To make matters worse, lean is a topic that produces a significant amount of zealotry. So, many experts



strongly argue that their particular “brand” of lean is the one right way to implement and use lean. In these circumstances, it’s no wonder that managers become confused about where and how to begin.

## Lean Applications

Lean will always be associated with Toyota Motor Corporation because most lean tools and techniques were developed by Toyota in Japan beginning in the 1950s. After World War II, Toyota’s leaders were determined to make the company a full-range car and truck manufacturing enterprise, but they faced several serious challenges. The Japanese motor vehicle market was small and yet demanded a fairly wide range of vehicle types. This meant that Toyota needed to find a way to earn a profit while manufacturing a variety of vehicles in low volumes. In addition, capital was extremely scarce, which made it impossible for Toyota to make large purchases of the latest production equipment. To succeed, or even survive, Toyota needed a way to build vehicles that would require fewer resources. To achieve this goal, Toyota’s leaders, principally Eiji Toyoda and Taiichi Ohno, began to create and implement the production techniques and tools that came to be known as lean (Toyota, 2009).

Figure 4.9



Lean organizations strive to improve flow by reducing the size of production batches, and in the process, they increase flexibility and lower costs.

Krones – [Filling machine for PET bottles](#) – CC BY-SA 3.0.

To gain the most benefits from lean, managers must be able to determine what specific lean tools and techniques will be effective in their particular business. And to make that determination, they must clearly understand what lean is designed to accomplish (its primary objectives) and what core principles lean is based on. With this understanding, managers can decide which lean tools will work well in their business, which lean tools will need to be modified or adapted to work well, and which tools are simply not appropriate.

What, then, are the major objectives and core principles of lean? Despite the arguments and debates that often surround attempts

to define and describe lean, it is clear that the ultimate objective of lean is the avoidance of muda, or wasteful activity, in all business operations. As shown in the following figure, muda comprises *seven deadly wastes*. In the lean world, waste means any activity or condition that consumes resources but creates no value for customers. Therefore, waste includes the production of defective products that must be remade or fixed, the production of more products than the market will buy, excessive work-in-process inventories, overprocessing (processing steps that aren't really needed or that add no value), unnecessary movement of people or products, and unnecessary waiting by employees.

## Elimination of Waste Is the Soul of Lean

*Muda* is a Japanese term for activity that is wasteful and doesn't add value. It is also a key concept in lean control. Waste reduction is an effective way to increase profitability. Here are the seven deadly wastes, along with their definitions:

1. **Defects** prevent the customer from accepting the product produced. The effort to create these defects

is wasted. New waste management processes must be added in an effort to reclaim some value for the otherwise scrap product.

2. **Overproduction** is the production or acquisition of items before they are actually required. It is the most dangerous waste of the company because it hides the production problems. Overproduction must be stored, managed, and protected.
3. **Transportation** is a cost with no added value. In addition, each time a product is moved it stands the risk of being damaged, lost, and delayed. Transportation does not transform the product in any way that the consumer is willing to pay for.
4. **Waiting** refers to both the time spent by the workers waiting for resources to arrive, the queue for their products to empty as well as the capital sunk in goods and services that are not yet delivered to the customer. It is often the case that there are processes to manage this waiting.
5. **Inventory** in the form of raw materials, work-in-progress, or finished goods represents a capital outlay that has not yet produced an income either by the producer or for the consumer. Any of these three items not being actively processed to add value is waste.
6. **Motion** refers to the actions performed by the producer, worker, or equipment. Motion has significance to damage, wear, and safety. It also includes the fixed assets and expenses incurred in the production process.
7. **Overprocessing** is defined as using a more expensive or otherwise valuable resource than is

needed for the task or adding features that are designed for but unneeded by the customer. There is a particular problem with this item regarding people. People may need to perform tasks that they are overqualified for to maintain their competency. This training cost can be used to offset the waste associated with overprocessing.

## The Five Core Principles of Lean

Lean methodologies are lean because they enable a business to do more with less. A lean organization uses less human effort, less equipment, less facilities space, less time, and less capital—while always coming closer to meeting customers' exact needs. Therefore, lean is not just another cost-cutting program of the kind we often see in business organizations. Lean is much more about the conservation of valuable resources than it is about cost cutting.

In their best-selling book, *Lean Thinking*, James Womack and Daniel Jones identified five core principles of lean (Womack & Jones, 2003). Let's examine them one by one.

# Define Value from the Customer's Perspective

The first core principle in the Womack/Jones lean framework is that value must be defined and specified from the customer's perspective. While this seems simple enough, it requires much more than high-sounding, generic statements. To be meaningful, value must be defined in terms of specific products. This means that managers must understand how each specific product meets the needs of specific customers at a specific price and at a specific time.

## Describe the Value Stream for Each Product or Service

The second core principle of lean is to describe the value stream for each product or service (or, in some cases, for groups or families of similar products). The value stream is the set of activities that the business is performing to bring a finished product to a customer. It includes both direct manufacturing activities and indirect activities such as order processing, purchasing, and materials management. Developing a detailed description or map of each value stream usually reveals huge amounts of waste. It enables managers to identify which value stream activities add value to the product,

which activities add no value but cannot be immediately eliminated for various reasons, and which activities create no value and can be immediately eliminated (or at least reduced substantially).

## Create Flow in Each Value Stream

The third essential principle of lean is embodied in the word flow. When a value stream has been completely described as unnecessary, non-value-adding activities have been eliminated, the basic idea of flow is to arrange the remaining activities sequentially, so that products will move smoothly and continuously from one activity to the next. However, flow means more than ease of movement. Flow is the lean principle that directly challenges the traditional “batch-and-queue” model of manufacturing, where people and equipment are organized and located by function, and products (and component parts) are manufactured in large batches. Lean organizations strive to improve flow by reducing the size of production batches, and in the process, they increase flexibility and lower costs.

# Produce at the Pace (Pull) of Actual Customer Demand

Producing at the pace or pull of actual customer demand is the fourth key principle of lean. One of the greatest benefits of moving from traditional batch-and-queue manufacturing to continuous flow production is that lead times fall dramatically. Reduced lead times and increased flexibility mean that lean organizations can respond to actual customer demand rather than attempt to predict in advance what that level of demand will be. This allows lean organizations to substantially lower both finished goods and work-in-process inventories.

## Strive to Continuously Improve All Business Operations

The fifth core principle of lean is continuous improvement, expressed in Japanese by the word kaizen. Companies that implement lean adopt the mind-set that it is always possible to improve any business activity, and they regularly conduct kaizen events throughout their organizations to improve specific



processes or operations. Today, Toyota is recognized as one of the most “lean” business enterprises in the world. Even more daunting, and humbling, is the fact that Toyota is still striving to improve.

### *Key Takeaway*

Lean control, or simply lean, is the system of nonfinancial controls used to improve product and service quality and decrease waste. While popularized through the dramatic successes of Toyota in auto manufacturing, lean processes are used to improve quality and decrease waste in most service and manufacturing industries around the world. In this section, you saw examples of the seven deadly wastes (*muda*) and the five core principles of lean which culminate in continuous improvement, or *kaizen*.

### *Exercises*

1. What is lean control?
2. What types of industries might find lean controls valuable?
3. What does *muda* mean and what are some examples of it?
4. What are the five lean principles?
5. Pick a company you are familiar with—what would it need to do differently to comply with the five lean principles?

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## 4.8 Crafting Your Balanced Scorecard

### *Learning Objectives*

1. Understand the Balanced Scorecard concept.
2. See how the Balanced Scorecard integrates nonfinancial and financial controls.
3. Be able to outline a personal Balanced Scorecard.

## An Introduction to the Balanced Scorecard

You have probably learned a bit about Balanced Scorecards already from this book or other sources. The Balanced Scorecard was originally introduced to integrate financial and nonfinancial controls in a way that provided a balanced understanding of the determinants of firm performance. It has since evolved into a strategic performance management tool of sorts because it helps managers identify and understand the way that operating controls

are tied to strategic controls, and ultimately, firm performance. In this broader sense, a Balanced Scorecard is a control system that translates an organization's vision, mission, and strategy into specific, quantifiable goals and to monitor the organization's performance in terms of achieving these goals.

According to Robert S. Kaplan and David P. Norton, the Balanced Scorecard approach “examines performance in four areas. Financial analysis, the most traditionally used performance indicator, includes assessments of measures such as operating costs and return-on-investment. Customer analysis looks at customer satisfaction and retention. Internal analysis looks at production and innovation, measuring performance in terms of maximizing profit from current products and following indicators for future productivity. Finally, learning and growth analysis explores the effectiveness of management in terms of measures of employee satisfaction and retention and information system performance (Kaplan & Norton, 2001).”

## Figure 4.10



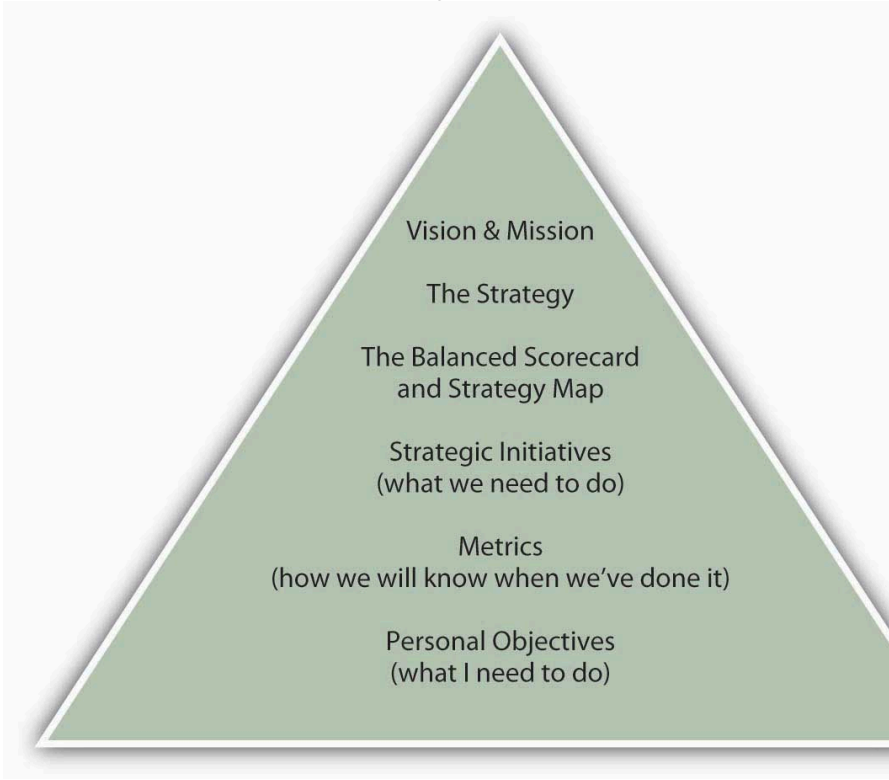
Just as tasters can rate a wine on numerous dimensions, the Balanced Scorecard integrates a variety of measures of organizational quality and performance.

fs999 – [Good Wine](#) – CC BY-NC-ND 2.0.

Whereas the scorecard identifies financial and nonfinancial areas of performance, the second step in the scorecard process is the development of a strategy map. The idea is to identify key performance areas in learning and growth and show how these cascade forward into the internal, customer, and financial performance areas. Typically, this is an iterative process where managers test relationships among the different areas of

performance. If the organization is a for-profit business like IBM, then managers would want to be able to show how and why the choice made in each area ultimately led to high profitability and stock prices.

Figure 4.11 The Balanced Scorecard Hierarchy



With the scorecard and strategy map in hand, managers then break broad goals down successively into vision, strategies, strategic initiatives, and metrics. As an example, imagine that an organization has a goal of maintaining employee satisfaction in its vision and mission statements. This would be the organization's vision in the domain of learning and growth, since employee satisfaction is indirectly related to financial performance. Strategies for achieving that learning and growth vision might include approaches such as increasing employee-management communication. Initiatives undertaken to implement the strategy could include, for example, regularly scheduled meetings with employees. Metrics could include quantifications of employee suggestions or employee surveys. Finally, managers would want to test their assumptions about the relationship between employee satisfaction and the downstream areas such as internal, customer, and financial performance. For example, satisfied employees may be more productive and less likely to quit (internal), which leads to better products or services and customer relations (customer), which leads to lower employee recruiting and training costs and greater sales and repeat sales (financial). This sequence of causal relationships is summarized in the following figure.

## Figure 4.12 The Strategy Map: A Causal Relationship between Nonfinancial and Financial Controls



## Your Personal Balanced Scorecard

Now that you have an understanding of nonfinancial and financial controls, and specific cases such as lean control systems and the Balanced Scorecard, it's time to apply the notion of the Balanced Scorecard to your personal situation. Recall that the figure shows your position in the context of the Balanced Scorecard—it asks you to state your personal objectives, in the context of the organization's objectives. However, in developing your own Balanced Scorecard, you will be laying out a road map to achieve your personal and



professional objectives (or mission and vision more broadly), which may overlap a lot or very little with the organization's objectives. While you can choose to focus the scorecard more narrowly on something like your career, you will be much better served by the personal Balanced Scorecard if you pursue a holistic (personal + professional) approach. For example, you may have particular personal goals about financial independence, and this would relate to other choices you might want to make about your personal and professional priorities.

Social psychologist Hubert Rampersad has sought to translate the business Balanced Scorecard into a personal balanced score by providing you with the following four suggestions (Rampersad, 2006).

1. Learning and growth: your skills and learning ability. How do you learn, and how can you be successful in the future? For example, the course that you are taking in conjunction with this book may lead to a degree, be a prerequisite for other courses, and so on.
2. Internal: your physical health and mental state. How can you control these to create value for yourself and others? How can you remain feeling good at work as well as in your spare time? For instance, your objectives and activities related to physical and emotional fitness.
3. Customer (external): relations with your spouse, children, friends, employer, colleagues, and others. How do they see you?
4. Financial: financial stability. To what degree are you able to fulfill your financial needs? Again, do you seek financial independence, resources to fund other endeavors?

The best way to put these suggestions into action is to work on the scorecard in several sessions, as there is a wide range of factors to consider. Your objective for the first session should be to develop your personal vision statement and list several areas of development

in *learning*, *internal*, *customer*, and *financial* facets of the scorecard. You should be able to fit the scorecard on a single page, for easy and frequent reference. You can use your next session with the scorecard to refine your developmental objectives and set relevant measures and near-term objectives. Post the scorecard where you can refer to it often. And, just as with organizations, if your circumstances change, then that is the critical time to revalidate or revise your personal Balanced Scorecard.

### *Key Takeaway*

You learned about the essential components of the Balanced Scorecard and saw how, when correctly conceived and implemented, it integrates an organization's vision, mission, and strategy with its nonfinancial and financial controls. As with correctly implemented nonfinancial controls, the components of the Balanced Scorecard need to be clearly tied to the strategy, and relationships among nonfinancial and financial controls validated. Appropriate control performance targets need to be set, and the appropriate indicators of performance used to gauge nonfinancial and financial performance. This section concluded by outlining for you the steps you might follow in building a personal Balanced Scorecard.

## Exercises

1. What is a Balanced Scorecard? What is the difference between a Balanced Scorecard and a simple list of nonfinancial and financial controls?
2. What roles do vision, mission, and strategy play in the development of a Balanced Scorecard?
3. What might be some of the differences between an organization's Balanced Scorecard and your personal Balanced Scorecard? What might be some of the similarities?
4. Under what circumstances should an organization's or an individual's Balanced Scorecard be revised?

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PART V

# CHAPTER 5: HISTORY, GLOBALIZATION, AND VALUES-BASED LEADERSHIP

- 5.1 History, Globalization, and Values-Based Leadership
- 5.2 Case in Point: Hanna Andersson Corporation Changes for Good
- 5.3 Ancient History: Management Through the 1990s
- 5.4 Contemporary Principles of Management
- 5.5 Global Trends
- 5.6 Globalization and Principles of Management
- 5.7 Developing Your Values-Based Leadership Skills



## 5.1 History, Globalization, and Values-Based Leadership

### *What's in It for Me?*

Reading this chapter will help you do the following:

1. Learn about the history of principles of management.
2. Know the context for contemporary principles of management.
3. Understand key global trends.
4. See how globalization is affecting management principles and practices.
5. Appreciate the importance of value-based leadership (ethics) in management.

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

Figure 5.2 The P-O-L-C Framework

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

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



## 5.2 Case in Point: Hanna Andersson Corporation Changes for Good

Figure 5.3



Jessica Lucia – [pajama time](#) – CC BY-NC-ND 2.0.

Born from a desire to bring quality European-style children's clothing to the United States, Hanna Andersson Corporation has sold colorful clothing and accessories since 1983. Husband and wife cofounders, Tom and Gun (pronounced “gōōn”) Denhart, started the Portland, Oregon-based company by distributing imported Swedish clothing from their home. Named for Gun's Swedish grandmother, the company now boasts over \$100 million in annual sales and employs over 500 people. Growing from an exclusive mail-order catalog business in the early 1980s, today Hanna Andersson also distributes products online, in 29 retail stores nationwide, and through select specialty retailers.

Over the years, Hanna Andersson has shown that it deeply values its employees. The company provides supplemental child-care reimbursement to all employees—even part-time sales associates. Additional employee benefits include part-time and flexible work hours, considerable paid time off, and 8 hours per year of paid time for employees to volunteer in the community. More important, though, employees feel like they are part of the Hanna Andersson family. In fact, in the beginning many of the employees were friends and family members of the Denharts.

It was important to the Denharts that they were involved in the decisions of the company and that those decisions took quality of life issues into account. Gun states, “If you can create balance among your work, your community, your family, and your friends, then you're going to be more

satisfied.” Examples of this philosophy infusing Hanna Andersson include the establishment of HannaDowns, a clothing recycling program where customers can return used clothing and receive a 20% off coupon for their next purchase. The charitable nature of Hanna Andersson has continued through what is now the HannaHelps program. This program awards grants and donates products to schools and nonprofit groups, helping children in the community and around the world. In addition, under Gun’s leadership Hanna Andersson established ongoing donations, 5% of pretax profits, to charities that benefit women and children.

The considerable growth and development the business experienced did not come without its challenges and necessary organizational change. In the 1990s and early 2000s, increased competition from other retailers and the introduction of online commerce posed some challenges for Hanna Andersson. The Denharts found themselves without a solid growth plan for the future. They worried that they might have lost sight of market forces. Change was necessary if Hanna Andersson was to remain viable.

Realizing the need for help and direction, the Denharts promoted from within the company to help initiate change and strategic growth, and in 1995, Phil Iosca took the strategic lead as CEO. Hanna Andersson was then sold to a private equity firm in 2001 and has since changed ownership several times, leading to a new business direction for the company. After selling the business, Gun remained on the Hanna board of directors until 2007. She also served as chair of the Hanna Andersson Children’s Foundation from 2001 to 2006. She still partners with the

company from time to time on charitable events in the community.

Under Iosca's steady leadership, the company opened several retail stores throughout the country in 2002 and established online commerce. In 2009, Hanna Andersson began distributing merchandise wholesale through retail partners such as Nordstrom and Costco. The implementation of each of these new distribution avenues required a great deal of change within the company. HR Vice President Gretchen Peterson explains, "The growth of the retail business required the greatest shift in our internal processes from both technical systems, to inventory planning and buying to distribution processes to our organizational communication and HR processes (recruitment, compensation, etc.), as well as our marketing communication programs." Tenured employees throughout the company found themselves in unfamiliar territory, unsure of the company's future as the board and owners debated the risks and rewards of retail expansion. Fortunately, the changes were mostly offset by a consistent leadership team. Petersen, who has been with the company since 1994, explains, "From 1995 to 2010, we retained the same CEO (Iosca) and therefore, the face of the company and the management style did not fluctuate greatly."

When Iosca retired in early 2010, chief operating officer Adam Stone took over as CEO. He helped his company weather yet another transition with a calm push for changes within the company. To help understand different points of view at Hanna Andersson, Stone often sat in on inventory and operational planning meetings. Step by step, Stone was able to break down work initiatives so the continuing changes were not so overwhelming to the

company and its valued employees. Over time, his and other company leaders' presence has helped employees make better, more strategic decisions. Rather than resisting change, they now feel heard and understood.

The decision to sell wholesale turned out to be a good one, as it has enabled the company to weather the recession's negative effect on retail and online purchases. Accounting for approximately 10% of total sales, the company's wholesale business is expected to boost yearly revenue by 5%. With more conscientious inventory purchases and strategic distribution initiatives, Hanna Andersson has realized a higher sales volume, lower inventory at year-end, and less liquidation. Through it all, company management has done an effective job at interpreting the desired growth goals of its owners while inspiring change within the company. With continued clear communication, direction, and willingness to try new techniques, Hanna Andersson is poised for growth and success in the future while not forgetting to take care of its employees.

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## *Discussion Questions*

1. How has Hanna Andersson applied values-based leadership in terms of the organization's choices related to P-O-L-C?
2. How did company leaders like Iosca, Petersen, and Stone help facilitate change within the company? Did they remain consistent with the values of the founders?
3. What were the reasons for organizational change within Hanna Andersson, both internally and externally?
4. What unique challenges do family-owned and -operated businesses face?
5. How did the mission of Hanna Andersson evolve over time?

## 5.3 Ancient History: Management Through the 1990s

### *Learning Objectives*

1. Early motivation for development of principles.
2. What problems did these principles solve?
3. What were the limitations of these early views?

## Early Management Principles

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

he thought all organizations should follow if they were to run properly.

# Fayol's 14 Principles of Management

## 1. Specialization/Division of Labor

By specializing in a limited set of activities, workers become more efficient and increase their output.

## 2. Authority/Responsibility

Managers must have the authority to issue commands, but with that authority comes the responsibility to ensure that the work gets done.

## 3. Discipline

Workers must obey orders if the business is to run smoothly. But good discipline is the result of effective leadership: workers must understand the rules and management should use penalties judiciously if workers violate the rules.

## 4. Unity of Command

An employee should receive orders only from one boss to avoid conflicting instructions.

## 5. Unity of Direction



Each unit or group has only one boss and follows one plan so that work is coordinated.

6. Subordination of Individual Interest

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

7. Remuneration

Workers must be fairly paid for their services.

8. Centralization

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

9. Line of Authority

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

10. Order

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

11. Equity

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

12. Stability of Tenure

Organizations do best when tenure is high (i.e., turnover is low).

People need time to learn their jobs, and stability promotes loyalty. High employee turnover is inefficient.

13. Initiative

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

14. Esprit de Corps

Harmony and team spirit across the organization builds morale and unity.

## Time and Motion

Figure 5.4



Today, coal is mined and moved by heavy machinery like this coal lift. In Taylor's time, it was moved by shovel to rail cars or trucks.

[PublicDomainPictures](#) – CC0 public domain.

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

Taylor is most famous for his "time studies," in which he used a stopwatch to time how long it took a worker to perform a task, such as shoveling coal or moving heavy loads. Then he experimented with different ways to do the tasks to save time. Sometimes the improvement came from better tools. For example, Taylor devised the "science of shoveling," in which he conducted time studies to determine how much weight a worker could lift with a shovel without tiring. He determined that 21 pounds was the optimal

weight. But since the employer expected each worker to bring his own shovel, and there were different materials to be shoveled on the job, it was hard to ensure that 21-pound optimum. So, Taylor provided workers with the optimal shovel for each density of materials, like coal, dirt, snow, and so on. With these optimal shovels, workers became three or four times more productive, and they were rewarded with pay increases.

Frank Gilbreth and Lillian Moller Gilbreth, his wife (who outlived Frank by 48 years!), were associates of Taylor and were likewise interested in standardization of work to improve productivity (Wikipedia, 2009). They went one better on Taylor's time studies, devising "motion studies" by photographing the individual movements of each worker (they attached lights to workers' hands and photographed their motions at slow speeds). The Gilbreths then carefully analyzed the motions and removed unnecessary ones. These motion studies were preceded by timing each task, so the studies were called "time and motion studies."

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

## Limitations of the Early

# Views

Fayol, Taylor, and the Gilbreths all addressed productivity improvement and how to run an organization smoothly. But those views presumed that managers were overseeing manual labor tasks. As work began to require less manual labor and more knowledge work, the principles they had developed became less effective. Worse, the principles of Taylorism tended to dehumanize workers. The writer Upton Sinclair who raised awareness of deplorable working conditions in the meatpacking industry in his 1906 book, *The Jungle*, was one of Taylor's vocal critics. Sinclair pointed out the relatively small increase in pay (61%) that workers received compared with their increased productivity (362%). Frederick Taylor answered Sinclair's criticism, saying that workers should not get the full benefit because it was management that devised and taught the workers to produce more. But Taylor's own words compare workers to beasts of burden: The worker is "not an extraordinary man difficult to find; he is merely a man more or less the type of an ox, heavy both mentally and physically" (Sinclair, 1911; Taylor, 1911)

When work was manual, it made sense for a manager to observe workers doing a task and to devise the most efficient motions and tools to do that task. As we moved from a manufacturing society to a service-based one, that kind of analysis had less relevance. Managers can't see inside the head of a software engineer to devise the fastest way to write code. Effective software programming depends on knowledge work, not typing speed.

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

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

## Management Ideas of the 1990s

Peter Drucker was the first scholar to write about how to manage knowledge workers, with his earliest work appearing in 1969. Drucker addressed topics like management of professionals, the discipline of entrepreneurship and innovation, and how people make decisions. In 1982, Tom Peters and Robert Waterman wrote *In Search of Excellence*, which became an international best seller and ushered a business revolution by changing the way managers viewed their relationships with employees and customers. On the

basis of the authors' research focusing on 43 of America's most successful companies in six major industries, the book introduced nine principles of management that are embodied in excellent organizations:

1. Managing Ambiguity and Paradox

The ability of managers to hold two opposing ideas in mind at the same time and still be able to function effectively.

2. A Bias for Action

A culture of impatience with lethargy and inertia that otherwise leaves organizations unresponsive.

3. Close to the Customer

Staying close to the customer to understand and anticipate customer needs and wants.

4. Autonomy and Entrepreneurship

Actions that foster innovation and nurture customer and product champions.

5. Productivity through People

Treating rank-and-file employees as a source of quality.

6. Hands-On, Value-Driven

A management philosophy that guides everyday practice and shows management's commitment.

7. Stick to the Knitting

Stay with what you do well and the businesses you know best.

8. Simple Form, Lean Staff

The best companies have very minimal, lean headquarters staff.

9. Simultaneous Loose-Tight Properties (Peters & Waterman, 1982)

Autonomy in shop-floor activities plus centralized values.

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

Beginning in the 1970s, Warren Bennis pioneered a new theory of leadership that addressed the need for leaders to have vision and to communicate that vision. More than just a manager, an effective leader was defined as someone with the ability to influence and motivate others not only to perform work tasks but also to support the organization’s values and meet the organization’s goals. Different views of leadership through the ages are shown next.

## Views of Leadership



# Through the Ages

A leader is a dealer in hope.

—Napoleon

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

—Indira Gandhi

What leaders really do: set direction, align people, and motivate people.

—John Kotter (Kotter, 1990).

## *Key Takeaway*

Early management theorists developed principles for managing organizations that suited the times. A century ago, few workers were highly educated; most work was manual, tasks were repetitive, and rates of change were slow. Hierarchy brought unity and control, and principles of

management in which managers defined tasks and coordinated workers to move in a unified direction made sense. As the economy moved from manufacturing to services, the need for engaging workers' minds and hearts became more important. Drucker, Peters, and Waterman presented ideas on how managers could achieve excellence in a continually changing business environment, while Bennis encouraged managers to become inspiring leaders who empowered people.

## *Exercises*

1. What goals seem to dominate early management principles?
2. Do you see any commonalities between Fayol's principles of management from 1911 and those of Tom Peters in the 1990s?
3. Are there any jobs today for which time and motion studies would make sense to do? Would any other skills need to be taught as well?
4. What do early management principles leave out?
5. How would you put some of the ideas of the 1990s into practice?
6. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

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Wikipedia, retrieved January 28, 2009, from [http://en.wikipedia.org/wiki/Cheaper\\_by\\_the\\_Dozen](http://en.wikipedia.org/wiki/Cheaper_by_the_Dozen). *Cheaper by the Dozen* was made into a 1950 motion picture starring Clifton Webb and Myrna Loy as Frank and Lillian Gilbreth.

## 5.4 Contemporary Principles of Management

### *Learning Objectives*

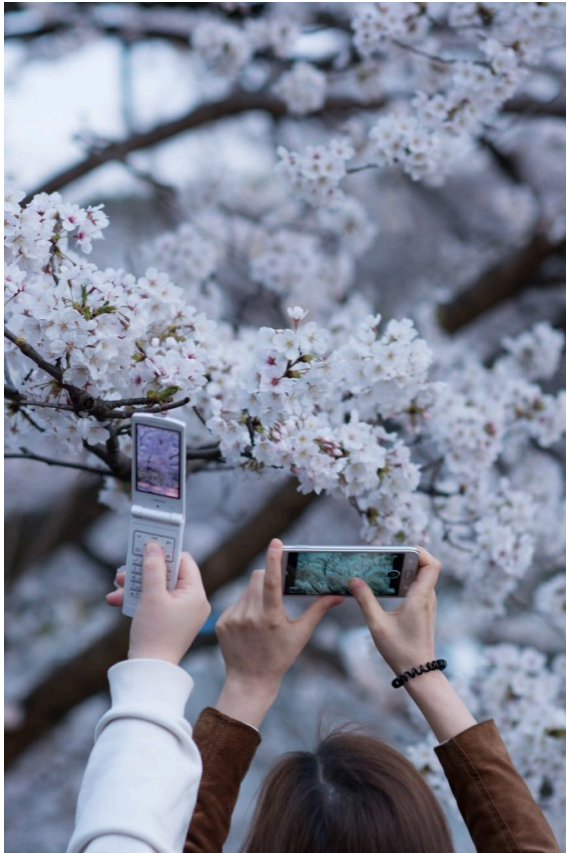
1. Recognize organizations as social movements.
2. Understand the benefits of social networking.
3. Recognize learning organizations.
4. Understand virtual organizations.

## Corporations as Social Movements

Traditionally, we've thought of corporations as organizations that had clear boundaries, formal procedures, and well-defined authority structures. In contrast, social movements are seen as more spontaneous and fluid. The term social movement refers to a type of group action that is focused on specific political or social issues; examples include the civil rights movement, the feminist movement, and the gay rights movement. Leaders of social

movements depend on charisma rather than authority to motivate participants to action. Contemporary management theory, however, is showing that the lines between the two are blurring: corporations are becoming more like social movements, and social movements are taking on more permanence. Just as companies are outsourcing specific jobs, so social movements can contract out tasks like lobbying and fundraising.

## Figure 5.5



We are more connected, at least virtually, than ever before.

Takashi Hososhima – [Traditional cell phone vs Smart phone](#) – CC BY-SA 2.0.

Corporations can implement initiatives that mimic a social movement. Consider how the CEO of one bank described a program he introduced: “The hierarchical management structure will give way to some collective activities that will improve our effectiveness in the marketplace. Decisions won’t flow from a management level to people on the line who are expected to implement those

decisions....We're telling everyone, choose a process, figure out what and where the problems are, work together to come up with solutions, and then put your solutions to work (Davis, et. al., 2005).” Thus, more and more leading businesses are harnessing the mechanics of social movements to improve how they will manage their businesses in the future.

## Social Networking

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

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

Today, social networks are starting points for corporate innovation: potentially limitless arrangements of individuals inspired by opportunities, affinities, or tasks. People feel better and work better when they belong to a group of other people like themselves (Rummler, 2007). This new attitude toward social

networks in the workplace has been fueled by the growth of social networking sites like Facebook.

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

As Zuckerberg told the *Wall Street Journal*, “We just want to share information more efficiently (Vara, 2007).” And, in the information age, that’s what social networks do best. Companies are applying the online social networking model of open and closed groups to their corporate intranets, creating secure sites for employees in different locations to collaborate on projects based on common interests, management directives, and incentives. For example, IBM’s pilot virtual world will let Big Blue employees use chat, instant messaging, and voice communication programs while also connecting to user-generated content in the public spaces of Second Life, another large social networking site. IBM also opened a virtual sales center in Second Life and, separately from the Second Life partnership, is building an internal virtual world where work groups can have meetings.

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

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



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

# Learning Organizations

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

1. *Systematic problem solving*: The company must have a consistent method for solving problems, using data and statistical tools rather than assumptions.
2. *Experimentation*: Experiments are a way to test ideas in small steps. Experiments let companies hunt for and test new knowledge, such as new ways of recycling waste or of structuring an incentive program.
3. *Learning from past experience*: It's essential for companies to review projects and products to learn what worked and what didn't. Boeing, for example, systematically gathered hundreds of "lessons learned" from previous airplane models, such as the 737 and 747, which it applied to the 757s and 767s, making those the most successful, error-free launches in Boeing's history.
4. *Learning from others*: Recognizing that good ideas come from anywhere, not just inside the company, learning organizations network with other companies in a continual search for good ideas to adapt and adopt.

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

## Virtual Organizations

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

# The Value of Wikis

Wikis provide companies with a number of benefits (Tapscott & Williams, 2006):

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

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

Many companies that are not solely virtual use the principles of a virtual organization as a way to structure the work of globally

distributed teams. VeriFone, one of the largest providers of electronic payment systems worldwide, has development teams working on software projects around the world. In what the company calls a “relay race,” developers in Dallas working on a rush project send unfinished work at quitting time to another development center in Laupahoehoe, Hawaii. When the sun sets there, the project is handed off to programmers in Bangalore, India, for further work, and by morning, it’s back in Dallas, 16 hours closer to completion. Similarly, midwestern Paper Converting Machine Co. (PCMC) outsourced some design work to Chennai, India. Having U.S. and Indian designers collaborate 24/7 has helped PCMC slash development costs and time, enabling the company to stay in business, according to CEO Robert Chapman. Chapman said, ““We can compete and create great American jobs, but not without offshoring (Engardio, 2006).”

Virtual organizations also pose management challenges. In practical terms, if everyone is empowered to be a decision maker but various people disagree, how can decisions be made? If all workers can work at the times they choose, how can management be sure that workers are doing their work—as opposed to reading Web sites for fun, shopping, or networking with friends—and that they are taking appropriate breaks from work to avoid burnout? There are also challenges related to the virtual environment’s dependence on computers and Web security.

### *Key Takeaway*

In today’s fast-changing world, organizations are becoming more like social movements, with more fluid boundaries and more participation in leadership across all levels. Social networks within corporations let employees

find out about one another and access the people who have the skills, knowledge, or connections to get the job done. Continuous learning is important, not just for individuals but for organizations as a whole, to transfer knowledge and try out new ideas as the pace of change increases. Virtual organizations can speed up cycle time, but they pose new challenges for managers on how to manage remote workers. Communications technologies and the Web let employees work from anywhere—around the corner or around the world—and require special attention to managing communication.

## *Exercises*

1. What commonalities do you see between organizations and social movements?
2. How would you use a social network to solve a work-related task?
3. Why do social networks inspire employees?
4. How do social networks help managers plan, organize, lead, and control?
5. What steps would you take to help your organization become a learning organization?
6. What are the advantages of a virtual organization?
7. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

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## 5.5 Global Trends

### *Learning Objectives*

1. What are the top 10 ways that the world is changing?
2. What is the pace of these changes?

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

## Top Trends

Top 5 Challenge Trends

1. Increasing Concern for the Environment
2. Greater Personalization and Customization
3. Faster Pace of Innovation
4. Increasing Complexity
5. Increasing Competition for Talent

#### Top 5 Solution Trends

1. Becoming More Connected
2. Becoming More Global
3. Becoming More Mobile
4. Rise of the Creative Class
5. Increasing Collaboration



# Top 5 Challenge Trends

## Increasing Concern for the Environment

We all seem to believe that the weather has been getting weirder in recent decades, and analysis by the National Oceanic and Atmospheric Administration (NOAA) suggests that there have been more catastrophic weather events in recent years than 10–20 years ago (NCDC, 2008). People are seeing the growing threat of global warming, which is leading to failing crops, rising sea levels, shortages of drinking water, and increasing death tolls from disease outbreaks such as malaria and dengue fever. Currently, 175 nations have signed the Kyoto Protocol on climate change and pledged to begin the long process of reducing greenhouse gas emissions. According to McKinsey's Global Survey of Business Executives, executives across the world believe that business plays a wider role in society and has responsibility to address issues such as environmental concerns beyond just following the letter of the law to minimize pollution. More and more companies now watch the "triple bottom line"—the benchmark of how they benefit, not just (1) profits but also (2) employees and (3) the environment as a whole. Companies realize they have to take bold steps to minimize their carbon footprint, create environmentally friendly products, and manage the company for more than just the next quarter's profits.

Managers can't simply "greenwash" (pretend to be green through tiny steps and heavy advertising).

Figure 5.6



Wind power is a high-growth business that takes advantage of increasing interest in sustainable energy sources.

TumblingRun – [Into the Night](#) – CC BY-ND 2.0.

# Greater Personalization and Customization

We're no longer happy with cookie-cutter products. Consumers are demanding more say in products and services. One size no longer fits all, and that means tailoring products and services to meet specific customer preferences. And as companies sell their products globally, that tailoring has to meet vastly different needs, cultural sensitivities, and income levels. Even something simple such as Tide laundry detergent can come in hundreds of potential variants in terms of formulations (powders, liquids, tablets), additives (whiteners, softeners, enzymes), fragrances (unscented, mountain fresh, floral), and package sizes (from single-load laundromat sizes to massive family/economy sizes). Customization and the growing numbers of products mean managing more services and more products. For example, for just \$4.99 plus shipping, you can create your own Kleenex oval tissue box (Mykleenextissue, 2008)! Managing for mass production won't suffice in the future.

## Faster Pace of Innovation

We all want the next new thing, and we want it now. New models, new products, and new variations—companies are speeding new products to market in response to customer demands. The Finland-

based mobile phone maker Nokia sells 150 different devices, of which 50–60 are newly introduced each year. The new variations are tailored to local languages, case colors, carriers, add-ons, and content. David Glazer, engineering director at Google, explained how his company adapts to this fast pace: “Google has a high tolerance for chaos and ambiguity. When we started OpenSocial [a universal platform for social-network applications], we didn’t know what the outcome was going to be.” So Google started running a bunch of experiments. “We set an operational tempo: when in doubt, do something,” Glazer said, “If you have two paths and you’re not sure which is right, take the fastest path (Fast Company, 2008).”

## Increasing Complexity

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

# Increasing Competition for Talent

We need people who can solve all these tough problems, and that's a challenge all by itself. According to McKinsey's global survey of trends, business executives think that this trend, among all trends, will have the greatest effect on their companies in the next five years. Jobs are also getting more complex. Consider people who work in warehouses doing shipping and receiving. At Intel, these workers were jokingly called "knuckle-dragging box pushers" and known for using their brawn to move boxes. Now, the field of transportation and shipping has become known as "supply chain management" and employees need brains as well as brawn—they need to know science and advanced math. They're called on to do mathematical models of transportation networks to find the most efficient trucking routes (to minimize environmental impact) and to load the truck for balance (to minimize fuel use) and for speed of unloading at each destination. Intel now acknowledges the skills that supply chain people need. The company created a career ladder leading to "supply chain master" that recognizes employees for developing expertise in supply chain modeling, statistics, risk management, and transportation planning. Overall, demand will grow for new types of talent such as in the green energy industry. At the same time, companies face a shrinking supply of seasoned managers as baby boomers retire in droves. Companies will have to deal with shortages of specific skills.

# Top 5 Solution Trends

## Becoming More Connected

We can now use the Internet and World Wide Web to connect people with people as never before. By mid-2008, more than 1.4 billion people were online, and that number continues to increase each year as the developing world catches up with the developed world on Internet usage (Internetworldstats, 2000). Through over a 100 million Web sites, we can access information, words, sounds, pictures, and video with an ease previously unimaginable.

## Becoming More Global

We can now tap into more global suppliers and global talent. Whatever problem a manager faces, someone in the world probably has the innovative products, the knowledge, or the talent to address the problem. And the Internet gives managers the tools to help problems find solutions, customers find suppliers, and innovators

find markets. The global problems we face will require people to work together to solve them. Ideas need to be shaped and implemented. Moving ideas around the world is a lot less costly and generates less greenhouse gases than moving people and products around the world. Organizations and social movements alike are using social networking to help people find others with the skills and talents to solve pressing problems.

## Becoming More Mobile

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

(Corbett, 2008). In South Africa, 85% of small black-owned businesses rely solely on mobile phones. Nokia has 120,000 outlets selling phones in India, where half the population lives in rural areas, not cities.

## Rise of the Creative Class

With blogs, Flickr, and YouTube, anyone can post their creative efforts. And with open source and wikis, anyone can contribute ideas and insights. We have ubiquitous opportunities for creativity that are nurturing a new creative class. For example, *OhmyNews*, a popular newspaper, is written by 60,000 contributing “citizen reporters.” It has become one of South Korea’s most influential news sources, with more than 750,000 unique users a day (Hua, 2007; Schonfeld & Vi-Wyn, 2007). The demand for workers and ability for workers to work from anywhere may lead to an “e-lance economy.” Workers may become free agents, working temporarily on one project and then moving to another when that project is done. Mobile connectivity means these new workers can live anywhere in the world and can work from anywhere in their community. For you as a manager, this means managing workers who might be in a cubicle in Columbus, Ohio, an apartment in Amsterdam, or an Internet café in Bangalore.



# Increasing Collaboration

These solution trends combine to foster a rise in collaboration across space and time. We can now bring more people together to solve more problems more quickly. To design new products quickly—and make sure they meet consumer needs—companies are now looking beyond their four walls for innovation. Google, for example, identifies itself as an organization that believes in open, decentralized innovation. “Google can’t do everything. And we shouldn’t,” said Andy Rubin, senior director of Mobile Platforms. “That’s why we formed the Open Handset Alliance with more than 34 partners (Fast Company, 2009).” While the handset alliance is about open cell phones (i.e., phones that aren’t tied to any particular phone company and can be programmed by users just like Apple or Palm’s “apps”), collaboration means much more than communications. People can now not just communicate but actually collaborate, building coalitions, projects, and products (Friedman, 2005). Groups self-organize on the Web. For example, the MIT-based Vehicle Design Summit is virtual, so students from around the world can participate. The goal is to make a low-cost, 200-mpg four-seater for the Indian market; in 2008, about 200 students participated in this international open-source project (Fast Company, 2008). A cross section of more trend predictions follows.

# Trends, Trends, Trends

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

## *Wired* 2008 Business Trends

1. Open Source Tycoons
2. Social Networks Grow Up
3. Green on the Outside
4. Invisible Internet
5. Rise of the Instapreneur
6. Building a Better Banner
7. Invented in China
8. VCs Look for a New Life
9. The Human Touch (*Wired*, 2008)

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

1. Competition for talent will intensify, become more global.
2. Centers of economic activity will shift globally, regionally.
3. Technological connectivity will increase.

4. Ubiquitous access to information will change economics of knowledge.
5. Demand for natural resources will grow, as will strain on environment.
6. Population in developed economies will age.
7. Consumer landscape will change, expand significantly.
8. Role, behavior of business will come under increasing scrutiny.
9. Organizations will become larger, more complex.
10. New global industry structures will emerge (e.g., private equity, networked)(McKinseyquarterly, 2007)

#### Countdown of the biggest trends in small business

1. Web 2.0
2. Rise of e-marketing
3. Little is the new big
4. The new consumer
5. Fragmentation
6. The world is getting flatter
7. Personalization
8. Work anywhere, any place
9. Global warming may put you out of business (USAtoday, 2009)

### *Key Takeaway*

Today's world faces many challenges, from the need to

protect the natural environment to the rapid pace of innovation and change. Technological connectivity is bringing the world closer together and enabling people to work from anywhere. Demand for talent and low-cost workers gives rise to outsourcing and employees working remotely, whether from home or from remote different countries. At the same time, information is now available to more and more people. This drives demand for personalization. It increases complexity but at the same time gives us the collaboration tools needed to solve tough problems.

## *Exercises*

1. How do you manage innovation if ideas can come from anywhere, including people who aren't your direct employees—or aren't even part of the company?
2. If, according to some trends, you can work anytime and anywhere, how do you decide when to work? When do you stop working?
3. What advantages do you see from a global workforce?
4. What commonalities do you see across the trends presented in “Trends, Trends, Trends”?
5. Which of the trends depend on technology?
6. What aspects of P-O-L-C would be most likely to change based on what you have learned in this

section?

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## 5.6 Globalization and Principles of Management

### *Learning Objectives*

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

## Globalization and Cross-Cultural Lessons

Despite the growing importance of global business, *Fortune* 500 companies have reported a shortage of global managers with the necessary skills (GMAC Global Relocation, 2008; Gregersen, et. al.,

1998). Some experts have argued that most U.S. companies are not positioned to implement global strategies due to a lack of global leadership capabilities (Hollenbeck & McCall, 2003)

It's easy to understand the problem: communicating and working with people from different countries can be a challenge—not just because of language issues but also because of different cultural norms. For example, in the United States, we tend to be direct in our communication. If you ask a U.S. manager a question, you'll tend to get a direct answer. In other cultures, particularly in southern Europe and Japan, the answer to a question begins with background and context—not the bottom line—so that the listener will understand how the person arrived at the conclusion. Similarly, in some cultures, it is considered rude to deliver bad news or say “no” to a request—instead, the speaker would give a noncommittal answer like “we'll see” or “we'll try.”

## Figure 5.7





Our places of work are more diverse than ever before.

Oregon Department of Transportation – [Diversity](#) – CC BY 2.0.

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

# Performance Orientation

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

# Uncertainty Avoidance

Life often brings unpredictable events, and with them anxiety. Uncertainty avoidance reflects the extent to which members of a society attempt to cope with anxiety by minimizing uncertainty. Should you establish rules, procedures, and social norms to help your employees deal with uncertainty? In countries where uncertainty avoidance is high, like Brazil and Switzerland, the answer is yes. People in such societies want strict rules, laws, and policies to eliminate or control the unexpected. Employees in these countries tend to seek order, consistency, and structure. Countries with low uncertainty avoidance, in contrast, are less rule-oriented. They tolerate a variety of opinions and are open to change and taking risks. Countries with low uncertainty avoidance include Hong Kong and Malaysia.

# Assertiveness

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

# Power Distance

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

# Gender Egalitarianism

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

# Institutional Collectivism

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

# Humane Orientation

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

# Future Orientation

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

# Global Ventures Gone Awry

When Corning proposed a joint venture with a Mexican glass manufacturer, Vitro, the match seemed made in heaven. But just two years later, the venture was terminated. What happened? Cultural clashes eroded what could have been a lucrative partnership. To start, American managers were continually frustrated with what they perceived to be slow decision making by Mexican managers. Mexico ranks higher on the power distance dimension than the United States—company structures are hierarchical, and decisions are made only by top managers. Loyalty to these managers is a high priority in Mexico, and trying to work around them is a big taboo. Mexicans also have a less urgent approach to time. They see time as more abundant than their U.S. counterparts. As a result, Mexicans thought that Americans wanted to move too fast on decisions, and they perceived American directness in communication as aggressive (Brake, 1996). Additional vignettes on managing across borders are shared next.

## Managing Across Borders

Lines on the Map Miss the Real Story

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

#### Talent Abroad

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

#### Local Solutions by People Who Understand Local Needs

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

Strategies in emerging markets conference, held by the MIT Center for Transportation and Logistics (CTL) on March 7, 2007, Cambridge, MA.

## *Key Takeaway*

Because the business environment increasingly depends on collaboration across regional and national borders, a successful global manager needs to be culturally sensitive and have an understanding for how business is done in different cultures. In some countries, loyalty to the group is key. Other countries celebrate mavericks and rule breakers if they can get things done. Knowing how best to communicate with your coworkers and employees—whether to be direct or indirect, whether to follow strict protocol or be more casual, whom to involve in decisions—are all important considerations.

## *Exercises*

1. You've just been made a manager in Sweden, known for its institutional collectivism. What incentives and reward structures would you use to motivate your employees?
2. How would you prepare workers for an overseas assignment?
3. Your company has 12 branches in the United States and will be opening its first branch in Brazil. Your company prides itself on its self-managed teams. Will you keep this policy in the new country? Why or why not?



4. You're a manager in Japan, and you've just discovered that a team leader under your supervision has made a mistake that will result in a quality problem. How will you handle this mistake?
5. You work in Hong Kong for a Swiss-owned firm. The Swiss are known for their high uncertainty avoidance. What differences might you expect to see from your Swiss bosses compared with your Hong Kong employees?
6. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

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## 5.7 Developing Your Values-Based Leadership Skills

### *Learning Objectives*

1. What ethical challenges do managers likely face?
2. Why are ethics relevant to principles of management?
3. What decision-making framework can you use to help integrate ethics into your own principles of management?

## Ethical Challenges Managers Face

It's late at night and the office is quiet—except that you've got a nagging voice in your head. Your product is already two weeks

behind schedule. You've got to get it out this week or lose the deal. But you've discovered a problem. To correct the problem would mean another 3-week delay—and you know the client won't go for that. It's a small error—it'll probably never become an issue. What do you do?

Managers face these kinds of issues all the time. Ethical dilemmas can arise from a variety of areas, such as:

- Advertising (desire to present your product or service in the best light)
- Sourcing of raw materials (does the company buy from a supplier who may be underpaying their people or damaging the environment?)
- Privacy (should the company have access to private e-mails that employees write on company time? or the Web sites they visit during work hours?)
- Safety (employee and community)
- Pay scales (relation of the pay of top executives to the rest of the company)
- Product pricing policies (variable pricing, discounts)
- Communication (with stockholders, announcements of plant closings, etc.)

It's easy to think that people who behave unethically are simply bad apples or have a character flaw. But in fact, it's often the situation or circumstances that create the ethical pressures. A global study of business ethics, published by the American Management Association, found that the main reasons for a lapse of ethics are:

1. Pressure to meet unrealistic business objectives/deadlines.
2. A desire to further one's career.
3. A desire to protect one's livelihood.<sup>1</sup>

You may have developed your own personal code of ethics, but the social environment of the organization can be a barrier to fulfilling

that code if management is behaving unethically. At Enron, vice president Sherron Watkins pointed out the accounting misdeeds, but she didn't take action beyond sending a memo to the company's chairman. Although she was hailed as a hero and whistleblower, she in fact did not disclose the issue to the public. Similarly, auditors at Arthur Andersen saw the questionable practices that Enron was pursuing, but when the auditors reported these facts to management, Arthur Andersen's managers pointed to the \$100 million of business they were getting from the Enron account. Those managers put profits ahead of ethics. In the end, both companies were ruined, not to mention the countless employees and shareholders left shattered and financially bankrupt.

Since 2002, when the Sarbanes-Oxley Act was passed, companies have been required to write a code of ethics. The act sought to reform corporate governance practices in large U.S. public companies. The purpose of the rules is to “define a code of ethics as a codification of standards that is reasonably necessary to deter wrongdoing and to promote honest and ethical conduct,” including the ethical handling of actual or apparent conflicts of interest, compliance with laws, and accountability to adhere to the code (SEC, 2009). The U.S. financial crisis of late 2008 pointed out that other areas, particularly in the financial services industry, needed stiffer regulations and regulatory scrutiny as well, and those moves will begin to take effect in early 2009. Some companies go a step further and articulate a set of values that drives their code of conduct, as “Procter & Gamble's Values and Code of Ethics” shows.

# Procter & Gamble's Values and Code of Ethics

Procter & Gamble Company lives by a set of five values that drive its code of business conduct. These values are:

1. *Integrity*

We always try to do the right thing.

We are honest and straightforward with each other.

We operate within the letter and spirit of the law.

We uphold the values and principles of P&G in every action and decision.

We are data-based and intellectually honest in advocating proposals, including recognizing risks.

2. *Passion for Winning*

We are determined to be the best at doing what matters most.

We have a healthy dissatisfaction with the status quo.

We have a compelling desire to improve and to win in the marketplace.

3. *Leadership*

We are all leaders in our area of responsibility, with a deep commitment to delivering leadership results.

We have a clear vision of where we are going.

We focus our resources to achieve leadership objectives and strategies.

We develop the capability to deliver our strategies and eliminate organizational barriers.

4. *Trust*

We respect our P&G colleagues, customers and consumers, and treat them as we want to be treated.

We have confidence in each other's capabilities and intentions.

We believe that people work best when there is a foundation of trust.

5. *Ownership*

We accept personal accountability to meet our business needs, improve our systems, and help others improve their effectiveness.

We all act like owners, treating the Company's assets as our own and behaving with the Company's long-term success in mind (Procter & Gamble, 2009).

# Importance of Ethics in Management

Figure 5.8



Trust is the cornerstone of ethical leadership.

Casa Thomas Jefferson – [shaking hands](#) – CC BY-NC-ND 2.0.

Ethical behavior among managers is even more important in organizations because leaders set the moral tone of the organization and serve as role models. Ethical leaders build trust in organizations. If employees see leaders behaving unethically, chances are the employees may be less inclined to behave ethically themselves. Companies may have printed codes of ethics, but the key standard is whether leaders uphold those values and standards. We tend to watch leaders for cues on appropriate actions and behavior that the company expects. Decisions that managers make are an indicator of their ethics. If the company says it cares about the safety of employees but then does not buy enough protective gear for them, it is not behaving in line with its code. Likewise, if managers exhibit unsafe behavior or look the other way when employees act unsafely, their behavior is not aligned with their stated code.

Without integrity, there can be no trust. Leadership is based on trust. Ethics drive effectiveness because employees know they can do the right thing decisively and with confidence. Ethical behavior earns the trust of customers and suppliers as well. It earns the public's good will. Ethical managers and ethical businesses tend to be more trusted and better treated. They suffer less resentment, inefficiency, litigation, and government interference. If top management cuts corners, however, or if they make shady decisions, then no matter how good the code of ethics sounds, people will emulate the questionable behavior, not the code.

As a manager, you can make it clear to employees that you expect them to conduct business in an ethical manner by offering seminars on ethics, having an ethics hotline via which employees can anonymously raise issues, and having an ombudsman office or ethics committee to investigate issues.



# Integrating Ethics into Managerial Decision Making

Ethics implies making a choice between decision-making rules. For instance, when choosing between two suppliers, do you choose the cheapest (decision rule 1) or the highest quality (decision rule 2). Ethics also implies deciding on a course of action when no clear decision rule is available. Dilemmas occur when the choices are incompatible and when one course of action seems to better serve your self-interest but appears to violate a moral principle. One way to tackle ethical dilemmas is to follow an ethical decision-making process, like the one described below.

## Steps in an Ethical Decision-Making Process

1. Assess the situation: What are you being asked to do? Is it illegal? Is it unethical? Who might be harmed?
2. Identify the stakeholders and consider the situation from their point of view. For example, consider the point of view of the company's employees, top management, stockholders, customers, suppliers, and community.

3. Consider the alternatives you have available to you and how they affect the stakeholders:
  - consequences
  - duties, rights, and principles
  - implications for personal integrity and character
4. How does the action make you feel about yourself? How would you feel if your actions were reported tomorrow in the *Wall Street Journal* (or your daily newspaper)? How would you explain your actions to your mother or to your 10-year-old child?
5. Make a decision. This might involve going to your boss or to a neutral third party (such as an ombudsman or ethics committee). Know your values and your limits. If the company does nothing to rectify the situation, do you want to continue working for the company?
6. Monitor outcomes. How did the decision work out? How did it turn out for all concerned? If you had it to do over again, what would you do differently (Hartman & DesJardins, 2008)?

If you see unethical behavior in others, confronting it early is better. Early on, you have more of an opportunity to talk with the person in a fact-finding (rather than an accusatory) way. The discussion may nip the problem in the bud and prevent it from escalating. Keeping silent because you want to avoid offending the person may lead to much greater problems later on. As French playwright Jean-Baptiste Moliere wrote, “It’s not only for what we do that we are held responsible, but for what we do not do.”

## *Key Takeaway*

Management involves decision making, and decisions often have an ethical component. Beyond personal ethics or a moral code, managers face making decisions that reflect the company as a whole, affecting its future success and vitality. Ethics doesn't just mean following the law but acting in accordance with basic values.

## *Exercises*

1. What are the consequences of unethical behavior?
2. If you were writing a code of ethics for your company, what would you include?
3. In times of economic downturn, is ethical behavior a luxury?
4. How would you handle an ethical violation committed by one of your employees?
5. Nobel laureate economist Milton Friedman said that companies should focus on maximizing profits, not social responsibilities or purposes. Do you agree with this view? Why or why not?
6. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

<sup>1</sup>The Ethical Enterprise: A Global Study of Business Ethics. (2005). New York: American Management Association.

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PART VI

# CHAPTER 6: LEADING PEOPLE AND ORGANIZATIONS

6.1 Leading People and Organizations

6.2 Case in Point: Indra Nooyi Draws on Vision and Values to Lead

6.3 Who Is a Leader? Trait Approaches to Leadership

6.4 What Do Leaders Do? Behavioral Approaches to Leadership

6.5 What Is the Role of the Context? Contingency Approaches to Leadership

6.6 Contemporary Approaches to Leadership

6.7 Developing Your Leadership Skills



# 6.1 Leading People and Organizations

Figure 6.1



Leaders give their followers direction. Leaders are key players in determining the success or failure of coordinated tasks and organizational initiatives.

Anthony Quintano – [Long Island Air Show at Jones Beach Memorial Day Weekend 2015](#) – CC BY 2.0.

## *What's in It for Me?*

Reading this chapter will help you do the following:

1. Define what leadership is and identify traits of effective leaders.
2. Describe behaviors that effective leaders demonstrate.
3. Specify the contexts in which various leadership styles are effective.
4. Explain the concepts of transformational, transactional, charismatic, servant, and authentic leadership.
5. Develop your own leadership skills.

Figure 6.2 The P-O-L-C Framework

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



Perhaps this is obvious, but leadership is the first of five facets constituting a manager's leading function in the P-O-L-C framework. Leadership may be defined as the act of influencing others to work toward a goal. Leaders exist at all levels of an organization. Some leaders hold a position of authority and may use the power that comes from their position, as well as their personal power, to influence others; they are called formal leaders. In contrast, informal leaders are without a formal position of authority within the organization but demonstrate leadership by influencing others through personal forms of power. One caveat is important here: Leaders do not rely on the use of force to influence people. Instead, people willingly adopt the leader's goal as their own goal. If a person is relying on force and punishment, the person is a dictator, not a leader.

What makes leaders effective? What distinguishes people who are perceived as leaders from those who are not perceived as leaders? More importantly, how do we train future leaders and improve their leadership ability? These are important questions that have attracted scholarly attention in the past several decades. In this chapter, we will review the history of leadership studies and summarize the major findings relating to these important questions. Around the world, we view leaders as at least partly responsible for their team's or company's success and failure. Company chief executive officers (CEOs) are paid millions of dollars in salaries and stock options with the assumption that they hold their company's future in their hands. In politics, education, sports, and profit and nonprofit sectors, influence of leaders over the behaviors of individuals and organizations is rarely questioned. When people and organizations fail, managers and CEOs are often viewed as responsible. Some people criticize the assumption that leadership always matters and call this belief "the romance of leadership." However, research evidence pointing to the importance of leaders for organizational success is accumulating (Hogan, et. al., 1994).

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## 6.2 Case in Point: Indra Nooyi Draws on Vision and Values to Lead



Figure 6.3



Penn State – [Indra Nooyi](#) – CC BY-NC 2.0.

She is among the top 100 most influential people according to *Time* magazine's 2008 list. She has also ranked number 4 in *Forbes*'s "Most Influential Women in the World" (2010), number 1 in *Fortune*'s "50 Most Powerful Women" (2006 through 2009), and number 22 in *Fortune*'s "25 Most

Powerful People in Business” (2007). The lists go on and on. To those familiar with her work and style, this should come as no surprise: Even before she became the CEO of PepsiCo Inc. (NYSE: PEP) in 2006, she was one of the most powerful executives at PepsiCo and one of the two candidates being groomed for the coveted CEO position. Born in Chennai, India, Nooyi graduated from Yale’s School of Management and worked in companies such as the Boston Consulting Group Inc., Motorola Inc., and ABB Inc. She also led an all-girls rock band in high school, but that is a different story.

What makes her one of the top leaders in the business world today? To start with, she has a clear vision for PepsiCo, which seems to be the right vision for the company at this point in time. Her vision is framed under the term “performance with purpose,” which is based on two key ideas: tackling the obesity epidemic by improving the nutritional status of PepsiCo products and making PepsiCo an environmentally sustainable company. She is an inspirational speaker and rallies people around her vision for the company. She has the track record to show that she means what she says. She was instrumental in PepsiCo’s acquisition of the food conglomerate Quaker Oats Company and the juice maker Tropicana Products Inc., both of which have healthy product lines. She is bent on reducing PepsiCo’s reliance on high-sugar, high-calorie beverages, and she made sure that PepsiCo removed trans fats from all its products before its competitors. On the environmental side, she is striving for a net zero impact on the environment. Among her priorities are plans to reduce the plastic used in beverage bottles and find biodegradable packaging solutions for PepsiCo products. Her vision is long

term and could be risky for short-term earnings, but it is also timely and important.

Those who work with her feel challenged by her high-performance standards and expectation of excellence. She is not afraid to give people negative feedback—and with humor, too. She pushes people until they come up with a solution to a problem and does not take “I don’t know” for an answer. For example, she insisted that her team find an alternative to the expensive palm oil and did not stop urging them forward until the alternative arrived: rice bran oil.

Nooyi is well liked and respected because she listens to those around her, even when they disagree with her. Her background cuts across national boundaries, which gives her a true appreciation for diversity, and she expects those around her to bring their values to work. In fact, when she graduated from college, she wore a sari to a job interview at Boston Consulting, where she got the job. She is an unusually collaborative person in the top suite of a *Fortune* 500 company, and she seeks help and information when she needs it. She has friendships with three ex-CEOs of PepsiCo who serve as her informal advisors, and when she was selected to the top position at PepsiCo, she made sure that her rival for the position got a pay raise and was given influence in the company so she did not lose him. She says that the best advice she received was from her father, who taught her to assume that people have good intentions. Nooyi notes that expecting people to have good intentions helps her prevent misunderstandings and show empathy for them. It seems that she is a role model to other business leaders around the world, and PepsiCo is well positioned to tackle the challenges the future may bring.

Case written based on information from Birger, J., Chandler, C., Frott, J., Gimbel, B., Gumbel, P., et al. (2008, May 12). The best advice I ever got. *Fortune*, 157(10), 70–80; Brady, D. (2007, June 11). Keeping cool in hot water. *BusinessWeek*. Retrieved April 30, 2010, from [http://www.businessweek.com/magazine/content/07\\_24/b4038067.htm](http://www.businessweek.com/magazine/content/07_24/b4038067.htm); Compton, J. (2007, October 15). Performance with purpose. *Beverage World*, 126(10), 32; McKay, B. (2008, May 6). Pepsi to cut plastic used in bottles. *Wall Street Journal*, Eastern edition, p. B2; Morris, B., & Neering, P. A. (2008, May 3). The Pepsi challenge: Can this snack and soda giant go healthy? CEO Indra Nooyi says yes but cola wars and corn prices will test her leadership. *Fortune*, 157(4), 54–66; Schultz, H. (2008, May 12). Indra Nooyi. *Time*, 171(19), 116–117; Seldman, M. (2008, June). Elevating aspirations at PepsiCo. *T+D*, 62(6), 36–38; The Pepsi challenge (2006, August 19). *Economist*. Retrieved April 30, 2010, from [http://www.economist.com/business-finance/displaystory.cfm?story\\_id=7803615](http://www.economist.com/business-finance/displaystory.cfm?story_id=7803615).

## Discussion Questions

1. How might a leader like Nooyi influence PepsiCo's use of P-O-L-C tools beyond her obvious role in the leadership dimension?
2. Do you think Indra Nooyi's vision of "performance with purpose" has been effective? Why or why not?
3. How does charisma relate to leadership? Do you

think the CEO of PepsiCo possesses this characteristic?

4. What makes Indra Nooyi so successful at her job? Is it her level of authority, or is it something else?
5. What do the types of advisors that Indra Nooyi relies on tell you about her values?
6. How much passion does Indra Nooyi seem to bring to her role as CEO of PepsiCo?



## 6.3 Who Is a Leader? Trait Approaches to Leadership

### *Learning Objectives*

1. Learn the position of trait approaches in the history of leadership studies.
2. Explain the traits that are associated with leadership.
3. Discuss the limitations of trait approaches to leadership.

The earliest approach to the study of leadership sought to identify a set of traits that distinguished leaders from nonleaders. What were the personality characteristics and physical and psychological attributes of people who are viewed as leaders? Because of the problems in measurement of personality traits at the time, different studies used different measures. By 1940, researchers concluded that the search for leadership-defining traits was futile. In recent years, though, after advances in personality literature such as the development of the Big Five personality framework, researchers have had more success in identifying traits that predict leadership (House & Aditya, 1997). Most importantly, charismatic leadership, which is among the contemporary approaches to leadership, may be viewed as an example of a trait approach.

The traits that show relatively strong relations with leadership are as follows (Judge, et. al., 2002):

# Intelligence

General mental ability, which psychologists refer to as “g” and which is often called IQ in everyday language, has been related to a person’s emerging as a leader within a group. Specifically, people who have high mental abilities are more likely to be viewed as leaders in their environment (House & Aditya, 1997; Ilies, et. al., 2004; Lord, et. al., 1986; Taggar, et. al., 1999). We should caution, though, that intelligence is a positive but modest predictor of leadership. In addition to having high IQ, effective leaders tend to have high emotional intelligence (EQ). People with high EQ demonstrate a high level of self-awareness, motivation, empathy, and social skills. The psychologist who coined the term emotional intelligence, Daniel Goleman, believes that IQ is a threshold quality: it matters for entry- to high-level management jobs, but once you get there, it no longer helps leaders because most leaders already have high IQ. According to Goleman, what differentiates effective leaders from ineffective ones becomes their ability to control their own emotions and understand other people’s emotions, their internal motivation, and their social skills (Goleman, 2004). Many observers believe that Carly Fiorina, the ousted CEO of HP, demonstrated high levels of intelligence but low levels of empathy for the people around her, which led to an overreliance on numbers while ignoring the human cost of her decisions (Karlgaard, 2002).

## Figure 6.4 Big Five Personality Traits

Trait	Description
<b>O</b> penness	Being curious, original, intellectual, creative, and open to new ideas.
<b>C</b> onscientiousness	Being organized, systematic, punctual, achievement oriented, and dependable.
<b>E</b> xtraversion	Being outgoing, talkative, sociable, and enjoying social situations.
<b>A</b> greeableness	Being affable, tolerant, sensitive, trusting, kind, and warm.
<b>N</b> euroticism	Being anxious, irritable, temperamental, and moody.

Goldberg, L. R. (1990). An alternative “description of personality”: The big-five factor structure. *Journal of Personality & Social Psychology*, 59, 1216–1229.

Psychologists have proposed various systems for categorizing the characteristics that make up an individual’s unique personality; one of the most widely accepted is the Big Five model, which rates an individual according to openness to experience, conscientiousness, extraversion, agreeableness, and Neuroticism. Several of the Big Five personality traits have been related to leadership emergence (whether someone is viewed as a leader by others) and leadership effectiveness.

Figure 6.5



Steve Ballmer, CEO of Microsoft, is an extraverted leader. For example, to celebrate Microsoft's 25th anniversary, Ballmer enthusiastically popped out of the anniversary cake to surprise the audience.

Martin Olsson – [Steve ballmer 2007 outdoors2](#) – CC BY-SA 2.0.

For example, extraversion is related to leadership. *extraverts* are sociable, assertive, and energetic people. They enjoy interacting with others in their environment and demonstrate self-confidence. Because they are both dominant and sociable in their environment,

they emerge as leaders in a wide variety of situations. Out of all personality traits, extraversion has the strongest relationship to both leader emergence and leader effectiveness. Research shows that conscientious people are also more likely to be leaders. This is not to say that all effective leaders are extraverts, but you are more likely to find extraverts in leadership positions. An example of an introverted leader is Jim Buckmaster, the CEO of Craigslist. He is known as an introvert, and he admits to not having meetings because he does not like them (Buckmaster, 2008).

Another personality trait related to leadership is *conscientiousness*. Conscientious people are organized, take initiative, and demonstrate persistence in their endeavors. Conscientious people are more likely to emerge as leaders and be effective as leaders. Finally, people who have *openness to experience*—those who demonstrate originality, creativity, and are open to trying new things—tend to emerge as leaders and tend to be effective as leaders.

## Self-Esteem

Self-esteem is not one of the Big Five personality traits, but it is an important aspect of one's personality. The degree to which people are at peace with themselves and have an overall positive assessment of their self-worth and capabilities seems to be relevant to whether they will be viewed as a leader. Leaders with high self-esteem support their subordinates more, and when punishment needs to be administered, they punish more effectively (Atwater, et. al., 1998; Niebuhr & Davis, 1984). It is possible that those with

high self-esteem have greater levels of self-confidence and this affects their image in the eyes of their followers. Self-esteem may also explain the relationship between some physical attributes and emerging as a leader. For example, research shows a strong relationship between height and being viewed as a leader (as well as one's career success over life). It is proposed that self-esteem may be the key to the connection of height with leadership, because people who are taller are also found to have higher self-esteem and therefore may project greater levels of charisma as well as confidence to their followers (Judge & Cable, 2004).

## Integrity

### Figure 6.6 Traits Associated with Leadership



Research also shows that people who are effective as leaders tend to have a moral compass and demonstrate honesty and integrity (Reave, 2005). Leaders whose integrity is questioned lose their trustworthiness, and they hurt their company's business along the way. For example, when it was revealed that Whole Foods CEO John Mackey was using a pseudonym to make negative comments online about the company's rival Wild Oats, his actions were heavily

criticized, his leadership was questioned, and the company's reputation was affected (Farrell & Davidson, 2007).

Figure 6.7



Condoleezza Rice had different responsibilities as the provost of Stanford



University compared with her role as secretary of state for the United States. Do you think these differences affected her behavior as a leader?

Wikimedia Commons – [Condoleezza Rice cropped](#) – public domain.

There are also some traits that are negatively related to emerging as a leader and being successful as a leader. For example, agreeable people who are modest, good natured, and avoid conflict are less likely to be *perceived* as leaders (Judge, et. al., 2002). The key to benefiting from the findings of trait researchers is to be aware that not all traits are equally effective in predicting leadership potential across all circumstances. Some organizational situations allow leader traits to make a greater difference (House & Aditya, 1997). For example, in small, entrepreneurial organizations where leaders have a lot of leeway to determine their own behavior, the type of traits leaders have may make a difference in leadership potential. In large, bureaucratic, and rule-bound organizations, such as the government and the military, a leader's traits may have less to do with how the person behaves and whether the person is a successful leader (Judge, et. al., 2002). Moreover, some traits become relevant in specific circumstances. For example, bravery is likely to be a key characteristic in military leaders but not necessarily in business leaders. Scholars now conclude that instead of trying to identify a few traits that distinguish leaders from nonleaders, it is important to identify the conditions under which different traits affect a leader's performance, as well as whether a person emerges as a leader (Hackman & Wageman, 2007).

## *Key Takeaway*

Many studies searched for a limited set of personal attributes, or traits, which would make someone be viewed as a leader and be successful as a leader. Some traits are consistently related to leadership, such as intelligence (both mental ability and emotional intelligence), personality (extraversion, conscientiousness, openness to experience, self-esteem), and integrity. The main limitation of the trait approach was that it ignored the situation in which leadership occurred. Therefore, it is more useful to specify the conditions under which different traits are needed.

## *Exercises*

1. Think of a leader you admire. What traits does this person have? Are they consistent with the traits discussed in this chapter? If not, why is this person effective despite the presence of different traits?
2. Can the findings of trait approaches be used to train potential leaders? Which traits seem easier to teach? Which are more stable?
3. How can organizations identify future leaders with a given set of traits? Which methods would be useful for this purpose?
4. What other traits can you think of that would be relevant to leadership?

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## 6.4 What Do Leaders Do?

### Behavioral Approaches to Leadership

#### *Learning Objectives*

1. Explain the behaviors that are associated with leadership.
2. Identify the three alternative decision-making styles leaders use and the conditions under which they are more effective.
3. Discuss the limitations of behavioral approaches to leadership.

When the trait researchers became disillusioned in 1940s, their attention turned to studying leader behaviors. What did effective leaders actually do? Which behaviors helped them to be perceived as leaders? Which behaviors increased their success?

# Leader Behaviors

In order to understand behaviors of effective leaders, researchers at Ohio State University and University of Michigan used many different techniques such as observing leaders in laboratory settings as well as surveying them. This research stream led to the discovery of two broad categories of behaviors: task-oriented behaviors (sometimes called *initiating structure*) and people-oriented behaviors (also called *consideration*). Task-oriented leader behaviors involve structuring the roles of subordinates, providing them with instructions, and behaving in ways that will increase the performance of the group. Task-oriented behaviors are directives given to employees to get things done and to ensure that organizational goals are met. People-oriented leader behaviors include showing concern for employee feelings and treating employees with respect. People-oriented leaders genuinely care about the well-being of their employees and they demonstrate their concern in their actions and decisions. At the time, researchers thought that these two categories of behaviors were the keys to the puzzle of leadership (See House & Aditya, 1997). However, research did not support the argument that demonstrating both of these behaviors would necessarily make leaders effective (Nystrom, 1978).

## Figure 6.8



Behavioral approaches to leadership showed that task-oriented and people-oriented behaviors are two key aspects of leadership.

BlueOlive – [Pixabay](#) – CC0 public domain.

When we look at the overall findings regarding these leader behaviors, it seems that both types of behaviors, in the aggregate, are beneficial to organizations but for different purposes. For example, when leaders demonstrate people-oriented behaviors, employees tend to be more satisfied and react more positively. However, when leaders are task-oriented, productivity tends to be a bit higher (Judge, et. al., 2004). Moreover, the situation in which these behaviors are demonstrated seems to matter. In small companies, task-oriented behaviors were found to be more effective than in large companies (Miles & Petty, 1977). There is also some evidence that working under a leader with very high levels of task-oriented behaviors may cause burnout on the part of employees (Seltzer & Numerof, 1988).

# Leader Decision Making

Another question behavioral researchers focused on was how leaders actually make decisions, and the influence of decision-making styles on leader effectiveness and employee reactions. Three types of decision-making styles were studied. In authoritarian decision making, leaders make the decision alone without necessarily involving employees in the decision-making process. When leaders use democratic decision making, employees participate in the making of the decision. Finally, leaders using laissez-faire decision making leave employees alone to make the decision; the leader provides minimum guidance and involvement in the decision.

As with other lines of research on leadership, research did not identify one decision-making style as the best one. It seems that the effectiveness of the style the leader is using depends on the circumstances. A review of the literature shows that when leaders use more democratic decision-making styles, employees tend to be more satisfied, but the effects on decision quality or employee productivity are weaker. Moreover, instead of expecting to be involved in every single decision, employees seem to care more about the overall participativeness of the organizational climate (Miller & Monge, 1986). Different types of employees may also expect different levels of involvement. In a study conducted in a research organization, scientists viewed democratic leadership most favorably and authoritarian leadership least favorably (Baumgartel, 1957), but employees working in large groups where opportunities for member interaction was limited preferred authoritarian leader decision making (Vroom & Mann, 1960).

Finally, the effectiveness of each style seems to depend on who is using it. There are examples of effective leaders using both authoritarian and democratic styles. For example, Larry Page and Sergey Brin at Google are known for their democratic decision-



making styles. At Hyundai USA, high-level managers use authoritarian decision-making styles, and the company is performing well (Deutschman, 2004; Welch, et. al., 2008).

Figure 6.9



Google cofounders Larry Page and Sergey Brin (shown here) are known for their democratic decision-making styles.

Guety – [Sergey Brin, Web 2.0 Conference](#) – CC BY 2.0.

The track record of the laissez-faire decision-making style is more problematic. Research shows that this style is negatively related to employee satisfaction with leaders and leader effectiveness (Judge & Piccolo, 2004). Laissez-faire leaders create high levels of ambiguity about job expectations on the part of employees, and employees also engage in higher levels of conflict when leaders are using the laissez-faire style (Skogstad, et. al., 2007).

## Limitations of Behavioral Approaches

Behavioral approaches, similar to trait approaches, fell out of favor because they neglected the environment in which behaviors are demonstrated. The hope of the researchers was that the identified behaviors would predict leadership under all circumstances, but it may be unrealistic to expect that a given set of behaviors would work under all circumstances. What makes a high school principal effective on the job may be very different from what makes a military leader, which would be different from behaviors creating success in small or large business enterprises. It turns out that specifying the conditions under which these behaviors are more effective may be a better approach.

## *Key Takeaway*

When researchers failed to identify a set of traits that would distinguish effective from ineffective leaders, research attention turned to the study of leader behaviors. Leaders may demonstrate task-oriented and people-oriented behaviors. Both seem to be related to important outcomes, with task-oriented behaviors more strongly relating to leader effectiveness and people-oriented behaviors leading to employee satisfaction. Leaders can also make decisions using authoritarian, democratic, or laissez-faire styles. While laissez-faire has certain downsides, there is no best style and the effectiveness of each style seems to vary across situations. Because of the inconsistency of results, researchers realized the importance of the context in which leadership occurs, which paved the way to contingency theories of leadership.

## *Exercises*

1. Give an example of a leader you admire whose behavior is primarily task-oriented, and one whose behavior is primarily people-oriented.
2. What are the limitations of authoritarian decision making? Under which conditions do you think authoritarian style would be more effective?
3. What are the limitations of democratic decision

making? Under which conditions do you think democratic style would be more effective?

4. What are the limitations of laissez-faire decision making? Under which conditions do you think laissez-faire style would be more effective?
5. Examine your own leadership style. Which behaviors are you more likely to demonstrate? Which decision-making style are you more likely to use?

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## 6.5 What Is the Role of the Context? Contingency Approaches to Leadership

### *Learning Objectives*

1. Learn about the major situational conditions that determine the effectiveness of different leadership styles.
2. Identify the conditions under which highly task-oriented and highly people-oriented leaders can be successful based on Fiedler's contingency theory.
3. Discuss the main premises of the Path-Goal theory of leadership.
4. Describe a method by which leaders can decide how democratic or authoritarian their decision making should be.

What is the best leadership style? By now, you must have realized that this may not be the right question to ask. Instead, a better question might be: under which conditions are different leadership styles more effective? After the disappointing results of trait and behavioral approaches, several scholars developed leadership theories that specifically incorporated the role of the environment. Researchers started following a contingency approach to leadership—rather than trying to identify traits or behaviors that would be effective under all conditions, the attention moved toward

specifying the situations under which different styles would be effective.

## Fiedler's Contingency Theory

The earliest and one of the most influential contingency theories was developed by Frederick Fiedler (Fiedler, 1967). According to the theory, a leader's style is measured by a scale called Least Preferred Coworker (LPC) scale. People who are filling out this survey are asked to think of a person who is their least preferred coworker. Then, they rate this person in terms of how friendly, nice, and cooperative this person is. Imagine someone you did not enjoy working with. Can you describe this person in positive terms? In other words, if you can say that the person you hated working with was still a nice person, you would have a high LPC score. This means that you have a people-oriented personality and you can separate your liking of a person from your ability to work with that person. However, if you think that the person you hated working with was also someone you did not like on a personal level, you would have a low LPC score. To you, being unable to work with someone would mean that you also dislike that person. In other words, you are a task-oriented person.

According to Fiedler's theory, different people can be effective in different situations. The LPC score is akin to a personality trait and is not likely to change. Instead, placing the right people in the right situation or changing the situation is important to increase a leader's effectiveness. The theory predicts that in "favorable" and "unfavorable" situations, a low LPC leader—one who has feelings


of dislike for coworkers who are difficult to work with—would be successful. When situational favorableness is medium, a high LPC leader—one who is able to personally like coworkers who are difficult to work with—is more likely to succeed.

How does Fiedler determine whether a situation is favorable, medium, or unfavorable? There are three conditions creating situational favorableness: (1) leader-subordinate relations, (2) position power, and (3) task structure. If the leader has a good relationship with most people, has high position power, and the task is structured, the situation is very favorable. When the leader has low-quality relations with employees, has low position power, and the task is relatively unstructured, the situation is very unfavorable.

Research partially supports the predictions of Fiedler's contingency theory (Peter, et. al., 1985; Strube & Garcia, 1981; Vecchio, 1983). Specifically, there is more support for the theory's predictions about when low LPC leadership should be used, but the part about when high LPC leadership would be more effective received less support. Even though the theory was not supported in its entirety, it is a useful framework to think about when task-versus people-oriented leadership may be more effective. Moreover, the theory is important because of its explicit recognition of the importance of the context of leadership.

## Figure 6.10 Situational Favorableness



Situational favorableness	Leader-subordinate relations	Position Power	Task structure	Best Style 
Favorable	Good	High	High	Low LPC Leader
	Good	High	Low	
	Good	Low	High	
Medium	Good	Low	Low	High LPC Leader
	Poor	High	High	
	Poor	High	Low	
	Poor	Low	High	
Unfavorable	Poor	Low	Low	Low LPC leader

Based on information in Fiedler, F. (1967). *A Theory of Leadership Effectiveness*. New York: McGraw-Hill; Fiedler, F. E. (1964). A contingency model of leader effectiveness. In L. Berkowitz (Ed.), *Advances in Experimental Social Psychology* (Vol. 1, pp. 149–190). New York: Academic Press.

## Situational Leadership

Another contingency approach to leadership is Kenneth Blanchard and Paul Hersey's Situational Leadership Theory (SLT) which argues that leaders must use different leadership styles depending on their followers' development level (Hersey, et. al., 2007). According to this model, employee readiness (defined as a combination of their

competence and commitment levels) is the key factor determining the proper leadership style. This approach has been highly popular with 14 million managers across 42 countries undergoing SLT training and 70% of *Fortune* 500 companies employing its use (Situational).

The model summarizes the level of directive and supportive behaviors that leaders may exhibit. The model argues that to be effective, leaders must use the right style of behaviors at the right time in each employee's development. It is recognized that followers are key to a leader's success. Employees who are at the earliest stages of developing are seen as being highly committed but with low competence for the tasks. Thus, leaders should be highly directive and less supportive. As the employee becomes more competent, the leader should engage in more coaching behaviors. Supportive behaviors are recommended once the employee is at moderate to high levels of competence. And finally, delegating is the recommended approach for leaders dealing with employees who are both highly committed and highly competent. While the SLT is popular with managers, relatively easy to understand and use, and has endured for decades, research has been mixed in its support of the basic assumptions of the model (Blank, et. al., 1990; Graeff, 1983; Fernandez & Vecchio, 2002). Therefore, while it can be a useful way to think about matching behaviors to situations, overreliance on this model, at the exclusion of other models, is premature.

# Table 6.1

<b>Follower Readiness Level</b>	Competence (Low)	Competence (Low)	Competence (Moderate to High)	Competence (High)
	Commitment (High)	Commitment (Low)	Commitment (Variable)	Commitment (High)
<b>Recommended Leader Style</b>	Directing Behavior	Coaching Behavior	Supporting Behavior	Delegating Behavior

Situational Leadership Theory helps leaders match their style to follower readiness levels.

# Path-Goal Theory of Leadership

Robert House's path-goal theory of leadership is based on the expectancy theory of motivation (House, 1971). Expectancy theory of motivation suggests that employees are motivated when they believe—or expect—that (1) their effort will lead to high performance, (2) their high performance will be rewarded, and (3) the rewards they will receive are valuable to them. According to the path-goal theory of leadership, the leader's main job is to make sure that all three of these conditions exist. Thus, leaders will create satisfied and high-performing employees by making sure that employee effort leads to performance, and their performance is rewarded. The leader removes roadblocks along the way and creates an environment that subordinates find motivational.

The theory also makes specific predictions about what type of

leader behavior will be effective under which circumstances (House, 1996; House & Mitchell, 1974). The theory identifies four leadership styles. Each of these styles can be effective, depending on the characteristics of employees (such as their ability level, preferences, locus of control, achievement motivation) and characteristics of the work environment (such as the level of role ambiguity, the degree of stress present in the environment, the degree to which the tasks are unpleasant).

## Four Leadership Styles

Path-goal theory of leadership identifies four styles leaders may adopt. Directive leaders provide specific directions to their employees. They lead employees by clarifying role expectations, setting schedules, and making sure that employees know what to do on a given workday. The theory predicts that the directive style will work well when employees are experiencing role ambiguity on the job. If people are unclear about how to go about doing their jobs, giving them specific directions will motivate them. However, if employees already have role clarity, and if they are performing boring, routine, and highly structured jobs, giving them direction does not help. In fact, it may hurt them by creating an even more restricting atmosphere. Directive leadership is also thought to be less effective when employees have high levels of ability. When managing professional employees with high levels of expertise and job-specific knowledge, telling them what to do may create a low empowerment environment, which impairs motivation.

Supportive leaders provide emotional support to employees. They

treat employees well, care about them on a personal level, and are encouraging. Supportive leadership is predicted to be effective when employees are under a lot of stress or when they are performing boring and repetitive jobs. When employees know exactly how to perform their jobs but their jobs are unpleasant, supportive leadership may also be effective.

Participative leaders make sure that employees are involved in making important decisions. Participative leadership may be more effective when employees have high levels of ability and when the decisions to be made are personally relevant to them. For employees who have a high internal locus of control, or the belief that they can control their own destinies, participative leadership gives employees a way of indirectly controlling organizational decisions, which will be appreciated.

Achievement-oriented leaders set goals for employees and encourage them to reach their goals. Their style challenges employees and focuses their attention on work-related goals. This style is likely to be effective when employees have both high levels of ability and high levels of achievement motivation.

## Figure 6.12 Predictions of Path-Goal Theory

Situation	Appropriate Leadership Style
<ul style="list-style-type: none"> <li>• When employees have high role ambiguity</li> <li>• When employees have low abilities</li> <li>• When employees have external locus of control</li> </ul>	Directive
<ul style="list-style-type: none"> <li>• When tasks are boring and repetitive</li> <li>• When tasks are stressful</li> </ul>	Supportive
<ul style="list-style-type: none"> <li>• When employees have high abilities</li> <li>• When the decision is relevant to employees</li> <li>• When employees have high internal locus of control</li> </ul>	Participative
<ul style="list-style-type: none"> <li>• When employees have high abilities</li> <li>• When employees have high achievement motivation</li> </ul>	Achievement-oriented

On the basis of information presented in House, R. J. (1996). Path-goal theory of leadership: Lessons, legacy, and a reformulated theory. *Leadership Quarterly*, 7, 323–352; House, R. J., & Mitchell, T. R. (1974). Path-goal theory of leadership. *Journal of Contemporary Business*, 3, 81–97.

The path-goal theory of leadership has received partial but encouraging levels of support from researchers. Because the theory is highly complicated, it has not been fully and adequately tested (House & Aditya, 1997; Stinson & Johnson, 1975; Wofford & Liska, 1993). The theory’s biggest contribution may be that it highlights the importance of a leader’s ability to change styles, depending on the circumstances. Unlike Fiedler’s contingency theory, in which the leader’s style is assumed to be fixed and only the environment can be changed, House’s path-goal theory underlines the importance of varying one’s style, depending on the situation.

# Vroom and Yetton's Normative Decision Model

Yale School of Management professor Victor Vroom and his colleagues Philip Yetton and Arthur Jago developed a decision-making tool to help leaders determine how much involvement they should seek when making decisions (Vroom, 2000; Vroom & Yetton, 1973; Jago & Vroom, 1980; Vroom & Jago, 1988). The model starts by having leaders answer several key questions and working their way through a funnel based on their responses.

Let's try it. Imagine that you want to help your employees lower their stress so that you can minimize employee absenteeism. There are a number of approaches you could take to reduce employee stress, such as offering gym memberships, providing employee assistance programs, establishing a nap room, and so forth. Let's refer to the model and start with the first question. As you answer each question as high (H) or low (L), follow the corresponding path down the funnel.

1. *Decision significance.* The decision has high significance because the approach chosen needs to be effective at reducing employee stress for the insurance premiums to be lowered. In other words, there is a quality requirement to the decision. Follow the path through H.
2. *Importance of commitment.* Does the leader need employee cooperation to implement the decision? In our example, the answer is high, because employees may simply ignore the resources if they do not like them. Follow the path through H.
3. *Leader expertise.* Does the leader have all the information needed to make a high-quality decision? In our example, leader expertise is low. You do not have information regarding what your employees need or what kinds of stress reduction

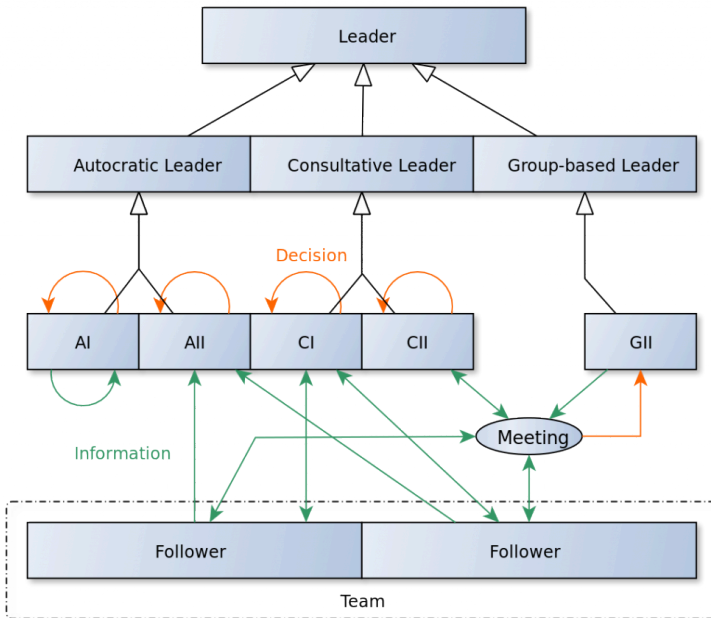
resources they would prefer. Follow the path through L.

4. *Likelihood of commitment.* If the leader makes the decision alone, what is the likelihood that the employees would accept it? Let's assume that the answer is Low. Based on the leader's experience with this group, they would likely ignore the decision if the leader makes it alone. Follow the path from L.
5. *Goal alignment.* Are the employee goals aligned with organizational goals? In this instance, employee and organizational goals may be aligned because you both want to ensure that employees are healthier. So let's say the alignment is high, and follow H.
6. *Group expertise.* Does the group have expertise in this decision-making area? The group in question has little information about which alternatives are costlier or more user friendly. We'll say group expertise is low. Follow the path from L.
7. *Team competence.* What is the ability of this particular team to solve the problem? Let's imagine that this is a new team that just got together and they have little demonstrated expertise to work together effectively. We will answer this as low, or L.

Based on the answers to the questions we gave, the normative approach recommends consulting employees as a group. In other words, the leader may make the decision alone after gathering information from employees and is not advised to delegate the decision to the team or to make the decision alone with no input from the team members.



Figure 6.13



Vroom and Yetton's leadership decision tree shows leaders which styles will be most effective in different situations.

Wikimedia Commons – [Vroom-Yetton Leader Styles](#) – CC BY-SA 3.0.

Vroom and Yetton's model is somewhat complicated, but research results support the validity of the model. On average, leaders using the style recommended by the model tend to make more effective decisions compared with leaders using a style not recommended by the model (Vroom & Jago, 1978).

## *Key Takeaway*

The contingency approaches to leadership describe the role the situation would play in choosing the most effective leadership style. Fiedler's contingency theory argued that task-oriented leaders would be most effective when the situation was the most and the least favorable, whereas relationship-oriented leaders would be effective when situational favorableness was moderate. Situational Leadership Theory takes the maturity level of followers into account. House's path-goal theory states that the leader's job is to ensure that employees view their effort as leading to performance and increase the belief that performance would be rewarded. For this purpose, leaders would use directive, supportive, participative, and achievement-oriented leadership styles, depending on what employees needed to feel motivated. Vroom and Yetton's normative decision model is a guide leaders can use to decide how participative they should be given decision environment characteristics.

## *Exercises*

1. Do you believe that the least preferred coworker technique is a valid method of measuring someone's leadership style? Why or why not?
2. Do you believe that leaders can vary their style to

demonstrate directive, supportive, achievement-oriented and participative styles with respect to different employees? Or does each leader tend to have a personal style that he or she regularly uses toward all employees?

3. What do you see as the limitations of the Vroom-Yetton leadership decision-making approach?
4. Which of the leadership theories covered in this section do you think are most useful, and least useful, to practicing managers? Why?

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## 6.6 Contemporary Approaches to Leadership

### *Learning Objectives*

1. Learn about the difference between transformational and transactional leaders.
2. Find out about charismatic leadership and how it relates to leader performance.
3. Describe how high-quality leader-subordinate relationships develop.
4. Define servant leadership and evaluate its potential for leadership effectiveness.
5. Define authentic leadership and evaluate its potential for leadership effectiveness.

What leadership theories make the greatest contributions to today's business environment? In this section, we will review the most recent developments in the field of leadership.

# Transformational Leadership

Transformational leadership theory is a recent addition to the literature, but more research has been conducted on this theory than all the contingency theories combined. The theory distinguishes between transformational and transactional leaders. Transformational leaders lead employees by aligning employee goals with the leader's goals. Thus, employees working for transformational leaders start focusing on the company's well-being rather than on what is best for them as individual employees. However, transactional leaders ensure that employees demonstrate the right behaviors because the leader provides resources in exchange (Bass, 1985; Burns, 1978).

Transformational leaders have four tools in their possession, which they use to influence employees and create commitment to the company goals (Bass, 1985; Burns, 1978; Row, 1995; Judge & Piccolo, 2004). First, transformational leaders are charismatic. Charisma refers to behaviors leaders demonstrate that inspire confidence, commitment, and admiration toward the leader (Shamir, et. al., 1993). Charismatic individuals have a “magnetic” personality that is appealing to followers. Leaders such as Barack Obama, John F. Kennedy, Ronald Reagan, Mahatma Gandhi, Mustafa Kemal Atatürk (founder of the Republic of Turkey), and Winston Churchill are viewed as charismatic. Second, transformational leaders use inspirational motivation or come up with a vision that is inspiring to others. Third is the use of intellectual stimulation, which means that they challenge organizational norms and status quo, and they encourage employees to think creatively and work harder. Finally, they use individualized consideration, which means that they show personal care and concern for the well-being of their followers. Examples of transformational business leaders include Steve Jobs of Apple; Lee Iacocca, who transformed Chrysler in the 1980s; and Jack Welch, who was the CEO of General Electric for 20

years. Each of these leaders is charismatic and is held responsible for the turnarounds of their companies.

While transformational leaders rely on their charisma, persuasiveness, and personal appeal to change and inspire their companies, transactional leaders use three other methods. Contingent rewards mean rewarding employees for their accomplishments. Active management by exception involves leaving employees to do their jobs without interference, but at the same time proactively predicting potential problems and preventing them from occurring. Passive management by exception is similar in that it involves leaving employees alone, but in this method, the manager waits until something goes wrong before coming to the rescue.

Which leadership style do you think is more effective, transformational or transactional? Research shows that transformational leadership is a powerful influence over leader effectiveness as well as employee satisfaction (Judge & Piccolo, 2004). In fact, transformational leaders increase the intrinsic motivation of their followers, build more effective relationships with employees, increase performance and creativity of their followers, increase team performance, and create higher levels of commitment to organizational change efforts (Herold, et. al., 2008; Piccolo & Colquitt, 2006; Schaubroeck, et. al., 2007; Shin & Zhou, 2003; Wang, et. al., 2005). However, except for passive management by exception, the transactional leadership styles are also effective, and they also have positive influences over leader performance as well as employee attitudes (Judge & Piccolo, 2004). To maximize their effectiveness, leaders are encouraged to demonstrate both transformational and transactional styles. They should also monitor themselves to avoid demonstrating passive management by exception or leaving employees to their own devices until problems arise.

Why is transformational leadership more effective? The key factor may be trust. Trust is the belief that the leader will show integrity, fairness, and predictability in his or her dealings with others. Research shows that when leaders demonstrate transformational

leadership behaviors, followers are more likely to trust the leader. The tendency to trust in transactional leaders is substantially lower. Because transformational leaders express greater levels of concern for people's well-being, and appeal to people's values, followers are more likely to believe that the leader has a trustworthy character (Dirks & Ferrin, 2002).

Is transformational leadership genetic? Some people assume that charisma is something people are born with. You either have charisma or you don't. However, research does not support this idea. We must acknowledge that there is a connection between some personality traits and charisma. Specifically, people who have a neurotic personality tend to demonstrate lower levels of charisma, and people who are extraverted tend to have higher levels of charisma. However, personality explains only around 10% of the variance in charisma (Bono & Judge, 2004). A large body of research has shown that it is possible to train people to increase their charisma and increase their transformational leadership (Barling, et. al., 1996; Dvir, et. al., 2002; Frese, et. al., 2003).

## Figure 6.14





Mustafa Kemal Atatürk, the founder of Turkish Republic and its first president, is known as a charismatic leader. He is widely admired and respected in Turkey and around the world. His picture appears in all schools, state buildings, denominations of Turkish lira, and in many people's homes in Turkey.

Wikimedia Commons – [Ataturk and the flag of Turkey](#) – public domain.

Even if charisma may be teachable, a more fundamental question remains: is it really needed? Charisma is only one element of

transformational leadership and leaders can be effective without charisma. In fact, charisma has a dark side. For every charismatic hero such as Lee Iacocca, Steve Jobs, and Virgin's Sir Richard Branson, there are charismatic personalities who harmed their organizations or nations, such as Adolph Hitler of Germany and Jeff Skilling of Enron. Leadership experts warn that when organizations are in a crisis, a board of directors or hiring manager may turn to heroes who they hope will save the organization and sometimes hire people who have no other particular qualifications outside of perceived charisma (Khurana, 2002).

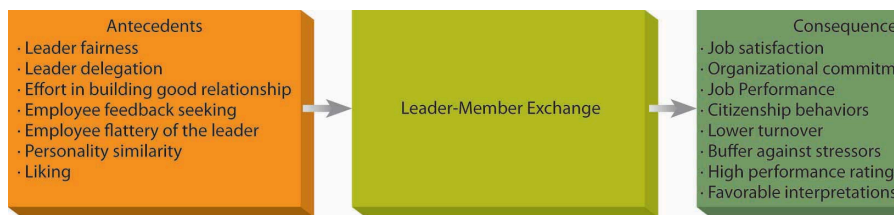
An interesting study shows that when companies have performed well, their CEOs are perceived as charismatic, but CEO charisma has no relation to the future performance of a company (Agle, et. al., 2006). So, what we view as someone's charisma may be largely because of their association with a successful company, and the success of a company depends on a large set of factors, including industry effects and historical performance. While it is true that charismatic leaders may sometimes achieve great results, the search for charismatic leaders under all circumstances may be irrational.

## Leader-Member Exchange Theory

Leader-member exchange (LMX) theory proposes that the type of relationship leaders have with their followers (members of the

organization) is the key to understanding how leaders influence employees. Leaders form different types of relationships with their employees. In high-quality LMX relationships, the leader forms a trust-based relationship with the member. The leader and member like each other, help each other when needed, and respect one another. In these relationships, the leader and the member are both ready to go above and beyond their job descriptions to promote the other's ability to succeed. In contrast, in low-quality LMX relationships, the leader and the member have lower levels of trust, liking, and respect toward each other. These relationships do not have to involve actively disliking each other, but the leader and member do not go beyond their formal job descriptions in their exchanges. In other words, the member does his or her job, the leader provides rewards and punishments, and the relationship does not involve high levels of loyalty or obligation toward each other (Dansereau, et. al., 1975; Erdogan & Liden, 2002; Gerstner, 1997; Graen & Uhl-Bien 1995; Liden & Maslyn, 1998).

## Figure 6.15 Factors Contributing to the Development of a High-Quality Leader-Member Exchange and Its Consequences



If you have work experience, you may have witnessed the different types of relationships managers form with their employees. In fact, many leaders end up developing differentiated relationships with their followers. Within the same work group, they may have in-group members who are close to them and out-group members who are more distant. If you have ever been in a high-quality LMX relationship with your manager, you may attest to its advantages. Research shows that high-quality LMX members are more satisfied with their jobs, more committed to their companies, have higher levels of clarity about what is expected of them, and perform at a higher level (Gerstner & Day, 1997; Hui, et. al., 1999; Kraimer, et. al., 2001; Liden, et. al., 2000; Settoon, et. al., 1996; Tierney, 1999; Wayne, et. al., 1997). Their high levels of performance may not be a surprise because they may receive higher levels of resources and help from their managers as well as more information and guidance. If they have questions, these employees feel more comfortable seeking feedback or information (Chen, et. al., 2007). Because of all the help, support, and guidance they receive, those employees who have a good relationship with the manager are in a better position to perform well. Given all they receive, these employees are motivated to reciprocate to the manager, and therefore they demonstrate higher levels of citizenship behaviors such as helping the leader and coworkers (Ilies, et. al., 2007). Being in a high-quality LMX relationship is also advantageous because a high-quality relationship is a buffer against many stressors, such as being a misfit in a company, having personality traits that do not match job demands, and having unmet expectations (Bauer, et. al., 2006; Erdogan, et. al., 2004; Major, et. al., 1995). The list of benefits

high-quality LMX employees receive is long, and it is not surprising that these employees are less likely to leave their jobs (Ferris, 1985; Graen, et. al., 1982).

The problem, of course, is that not all employees have a high-quality relationship, and those who are in the leader's out-group may suffer as a result. But how do you end up developing such a high-quality relationship with the leader? That seems to depend on many factors. Managers can help develop such a high-quality and trust-based relationship by treating their employees in a fair and dignified manner (Masterson, et. al., 2000). They can also test to see whether the employee is trustworthy by delegating certain tasks when the employee first starts working with the manager (Bauer, et. al., 1996). Employees also have an active role in developing the relationship. Employees can seek feedback to improve their performance, be open to learning new things on the job, and engage in political behaviors such as flattery (Colella & Varma, 2001; Maslyn & Uhl-Bien, 2001; Janssen & Van Yperen, 2004; Wing, et. al., 2007).

Interestingly, high performance on the employee's part does not seem to be enough to develop a high-quality exchange with the leader. Instead, interpersonal factors such as personality similarity and liking are more powerful influences over how the relationship develops (Engle & Lord, 1997; Liden, et. al., 1993; Wayne, et. al., 1997). Finally, the relationship development occurs in a slightly different manner in different types of companies; corporate culture matters in how leaders develop these relationships. In performance-oriented cultures, how the leader distributes rewards seem to be the relevant factor, whereas in people-oriented cultures, whether the leader treats people with dignity is more relevant (Erdogan, et. al., 2006).

Should you worry if you do not have a high-quality relationship with your manager? One problem in a low-quality exchange is that you may not have access to the positive work environment available to the high-quality LMX members. Second, low LMX employees may feel that their situation is unfair. Even when their objective performance does not warrant it, those who have a good

relationship with the leader tend to receive positive performance appraisals (Duarte, et. al., 1994). Moreover, they are more likely to be given the benefit of the doubt. For example, when they succeed, the manager is more likely to think that they succeeded because they put forth a lot of effort and they had high abilities, whereas for low LMX members who perform objectively well, the manager is less likely to think so (Heneman, 1989). In other words, the leader may interpret the same situation differently, depending on which employee is involved and may reward low LMX employees less even when they are performing well. In short, those with a low-quality relationship with the leader may experience a work environment that may not be very supportive or fair.

Despite its negative consequences, we cannot say that all employees want to have a high-quality relationship with the leader. Some employees may genuinely dislike the leader and may not value the rewards in the leader's possession. If the leader is not well liked in the company and is known as abusive or unethical, being close to such a person may imply guilt by association. For employees who have no interest in advancing their careers in the current company (such as a student employee who is working in retail but has no interest in retail as a career), having a low-quality exchange may afford the opportunity to just do one's job without having to go above and beyond these job requirements. Finally, not all leaders are equally capable of influencing their employees by having a good relationship with their employees: It also depends on the power and influence of the leader in the overall company and how the leader himself or herself is treated within the company. Leaders who are more powerful will have more to share with employees who are close to them (Erdogan & Enders, 2007; Sparrowe & Liden, 2005; Tangirala, et. al., 2007).

What LMX theory implies for leaders is that one way of influencing employees is through the types of relationships leaders form with their employees. These relationships develop naturally because of the work-related and personal interactions between the manager and the employee. Because they occur naturally, some

leaders may not be aware of the power that lies in them. These relationships have an important influence over employee attitudes and behaviors. In the worst case, they have the potential to create a negative work environment characterized by favoritism and unfairness. Therefore, managers are advised to be aware of how they build these relationships; put forth effort in cultivating these relationships consciously; be open to forming good relationships to people from all backgrounds regardless of their permanent characteristics such as sex, race, age, or disability status; and prevent these relationships from leading to an unfair work environment.

## Self-Assessment: Rate Your LMX

Answer the following questions using 1 = not at all, 2 = somewhat, 3 = fully agree

1. \_\_\_\_\_ I like my supervisor very much as a person.
2. \_\_\_\_\_ My supervisor is the kind of person one would like to have as a friend.
3. \_\_\_\_\_ My supervisor is a lot of fun to work with.
4. \_\_\_\_\_ My supervisor defends my work actions to

a superior, even without complete knowledge of the issue in question.

5. \_\_\_\_\_ My supervisor would come to my defense if I were “attacked” by others.
6. \_\_\_\_\_ My supervisor would defend me to others in the organization if I made an honest mistake.
7. \_\_\_\_\_ I do work for my supervisor that goes beyond what is specified in my job description.
8. \_\_\_\_\_ I am willing to apply extra efforts, beyond those normally required, to further the interests of my work group.
9. \_\_\_\_\_ I do not mind working my hardest for my supervisor.
10. \_\_\_\_\_ I am impressed with my supervisor’s knowledge of his/her job.
11. \_\_\_\_\_ I respect my supervisor’s knowledge of and competence on the job.
12. \_\_\_\_\_ I admire my supervisor’s professional skills.

**Scoring:**

Add your score for 1, 2, 3 = \_\_\_\_\_ This is your score on the *Liking* factor of LMX.

*A score of 3 to 4 indicates a low LMX in terms of liking. A score of 5 to 6 indicates an average LMX in terms of liking. A score of 7+ indicates a high-quality LMX in terms of liking.*

Add your score for 4, 5, 6 = \_\_\_\_\_ This is your score on the *Loyalty* factor of LMX.

*A score of 3 to 4 indicates a low LMX in terms of loyalty. A score of 5 to 6 indicates an average LMX in terms of loyalty. A score of 7+ indicates a high-quality LMX in terms of loyalty.*



Add your score for 7, 8, 9 = \_\_\_\_\_ This is your score on the Contribution factor of LMX.

A score of 3 to 4 indicates a low LMX in terms of contribution. A score of 5 to 6 indicates an average LMX in terms of contribution. A score of 7+ indicates a high-quality LMX in terms of contribution.

Add your score for 10, 11, 12 = \_\_\_\_\_ This is your score on the Professional Respect factor of LMX.

A score of 3 to 4 indicates a low LMX in terms of professional respect. A score of 5 to 6 indicates an average LMX in terms of professional respect. A score of 7+ indicates a high-quality LMX in terms of professional respect.

Source: Adapted from Liden, R. C., & Maslyn, J. M. (1998). Multidimensionality of leader-member exchange: An empirical assessment through scale development. *Journal of Management*, 24, 43-72. Used by permission of Sage Publications.

## Servant Leadership

The early 21st century has been marked by a series of highly publicized corporate ethics scandals: between 2000 and 2003, we witnessed Enron, WorldCom, Arthur Andersen, Qwest, and Global Crossing shake investor confidence in corporations and leaders.

The importance of ethical leadership and keeping long-term interests of stakeholders in mind is becoming more widely acknowledged.

Servant leadership approach defines the leader's role as serving the needs of others. According to this approach, the primary mission of the leader is to develop employees and help them reach their goals. Servant leaders put their employees first, understand their personal needs and desires, empower them, and help them develop in their careers. Unlike mainstream management approaches, the overriding objective in servant leadership is not necessarily getting employees to contribute to organizational goals. Instead, servant leaders feel an obligation to their employees, customers, and the external community. Employee happiness is seen as an end in itself, and servant leaders sometimes sacrifice their own well-being to help employees succeed. In addition to a clear focus on having a moral compass, servant leaders are also interested in serving the community. In other words, their efforts to help others are not restricted to company insiders, and they are genuinely concerned about the broader community surrounding their company (Greenleaf, 1977; Liden, et. al., 2008). According to historian Doris Kearns Goodwin, Abraham Lincoln was a servant leader because of his balance of social conscience, empathy, and generosity (Goodwin, 2005).

Even though servant leadership has some overlap with other leadership approaches such as transformational leadership, its explicit focus on ethics, community development, and self-sacrifice are distinct characteristics of this leadership style. Research shows that servant leadership has a positive effect on employee commitment, employee citizenship behaviors toward the community (such as participating in community volunteering), and job performance (Liden, et. al., 2008). Leaders who follow the servant leadership approach create a climate of fairness in their departments, which leads to higher levels of interpersonal helping behavior (Erhart, 2004).

Servant leadership is a tough transition for many managers who

are socialized to put their own needs first, be driven by success, and tell people what to do. In fact, many of today's corporate leaders are not known for their humility! However, leaders who have adopted this approach attest to its effectiveness. David Wolfskehl, of Action Fast Print in New Jersey, founded his printing company when he was 24. He marks the day he started asking employees what he can do for them as the beginning of his company's new culture. In the next two years, his company increased its productivity by 30% (Buchanan, 2007).

## Authentic Leadership

Leaders have to be a lot of things to a lot of people. They operate within different structures, work with different types of people, and they have to be adaptable. At times, it may seem that a leader's smartest strategy would be to act as a social chameleon, changing his or her style whenever doing so seems advantageous. But this would lose sight of the fact that effective leaders have to stay true to themselves. The authentic leadership approach embraces this value: its key advice is "be yourself." Think about it: We all have different backgrounds, different life experiences, and different role models. These trigger events over the course of our lifetime that shape our values, preferences, and priorities. Instead of trying to fit into societal expectations about what a leader should be like, act like, or look like, authentic leaders derive their strength from their own past experiences. Thus, one key characteristic of authentic leaders is that they are self-aware. They are introspective, understand where they are coming from, and have a thorough understanding of their

own values and priorities. Second, they are not afraid to act the way they are. In other words, they have high levels of personal integrity. They say what they think. They behave in a way consistent with their values—they practice what they preach. Instead of trying to imitate other great leaders, they find their style in their own personality and life experiences (Avolio & Gardner, 2005; Gardner, et. al., 2005; George, 2007; Ilies, et. al., 2005; Sparrowe, 2005).

One example of an authentic leader is Howard Schultz, the founder of Starbucks coffeehouses. As a child, Schultz witnessed the job-related difficulties his father experienced because of medical problems. Even though he had no idea he would have his own business one day, the desire to protect people was shaped in those years and became one of his foremost values. When he founded Starbucks, he became an industry pioneer in providing health insurance and retirement coverage to part-time as well as full-time employees (Shamir & Eilam, 2005).

## Figure 6.16



An example of an authentic leader is Howard Schultz, the founder of Starbucks coffeehouses. Witnessing his father losing jobs because of medical problems, he became passionate about a company's need to care for its employees.

Sillygwailo – [Howard Schultz Starbucks](#) – CC BY 2.5.

Authentic leadership requires understanding oneself. Therefore, in addition to self-reflection, feedback from others is needed to gain a true understanding of one's behavior and effect on others. Authentic

leadership is viewed as a potentially influential style because employees are more likely to trust such a leader. Moreover, working for authentic leaders is likely to lead to greater levels of satisfaction, performance, and overall well-being on the part of employees (Walumbwa, et. al., 2008). Best-selling author Jim Collins studied companies that had, in his opinion, gone from good to great, and he found they had one thing in common (Collins, 2001). All of these companies had what he calls Level 5 leaders who build organizations through their personal humility and professional will. He notes that Level 5 leaders are modest and understated. In many ways, they can be seen as truly authentic leaders.

### *Key Takeaway*

Contemporary approaches to leadership include transformational leadership, leader-member exchange, servant leadership, and authentic leadership. The transformational leadership approach highlights the importance of leader charisma, inspirational motivation, intellectual stimulation, and individualized consideration as methods of influence. Its counterpart is the transactional leadership approach, in which the leader focuses on getting employees to achieve organizational goals. According to leader-member exchange (LMX) approach, the unique, trust-based relationships leaders develop with employees is the key to leadership effectiveness. Recently, leadership scholars started to emphasize the importance of serving others and adopting a customer-oriented view in leadership; another recent focus is on the importance of being true to oneself as a leader. While each leadership approach focuses on a different element of leadership,

effective leaders will need to change their style based on the demands of the situation as well as using their own values and moral compass.

## *Exercises*

1. What are the characteristics of transformational leaders? Are transformational leaders more effective than transactional leaders?
2. What is charisma? What are the advantages and disadvantages of charismatic leadership? Should organizations look for charismatic leaders when selecting managers?
3. What are the differences (if any) between a leader having a high-quality exchange with employees and being friends with employees?
4. What does it mean to be a servant leader? Do you know any leaders whose style resembles servant leaders? What are the advantages of adopting such a leadership style?
5. What does it mean to be an authentic leader? How would such a style be developed?

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## 6.7 Developing Your Leadership Skills

### *Learning Objectives*

1. Develop your charismatic leadership.
2. Learn how to be a servant leader.
3. Follow a process to develop your own authentic leadership.

Figure 6.17



The CEO of PepsiCo, Indra Nooyi, is a leader who demonstrates passion for her vision and energizes those around her toward her vision for the company and causes she believes in.

World Economic Forum – [Indra Nooyi – World Economic Forum Annual Meeting Davos 2008](#) – CC BY-SA 2.0.

In this section, we will give you tips to help you develop your charismatic, servant, and authentic leadership skills. Each of these contemporary approaches to leadership is believed to be related to employee attitudes and a healthy work environment.

# Develop Your Charismatic Leadership Skills

Charismatic individuals have a “magnetic” personality that is appealing to followers. While many people assume that charisma is inborn, it is possible to improve your charisma by following these suggestions (Frese, et. al., 2003; Shamir, et. al., 1993):

*Have a vision around which people can gather.* When framing requests or addressing to others, instead of emphasizing short-term goals, stress the importance of the long-term vision. When giving a message, think about the overarching purpose. What is the ultimate goal? Why should people care? What are you trying to achieve?

*Tie the vision to history.* In addition to stressing the ideal future, charismatic leaders bring up the history and how the shared history ties to the future.

*Watch your body language.* Charismatic leaders are energetic and passionate about their ideas. This involves truly believing in your own ideas. When talking to others, you may want to look confident, look them in the eye, and express your belief in your ideas.

*Make sure that employees have confidence in themselves.* You can achieve this by showing that you believe in them and trust their abilities. If they have real reason to doubt their abilities, make sure that you help them address the underlying issue, such as through training and mentoring.



Figure 6.18



The various theories of leadership covered in this chapter highlight the interrelationships among the facets of the leading functions. In particular, leadership, decision making, and motivation are very closely linked. Leadership skills span the other P-O-L-C functions as well.

Sgerbic – [Tabash toast at CFI Student Leadership Conference 2013](#) – CC BY-SA 3.0.

*Challenge the status quo.* Charismatic leaders solve current problems by radically rethinking the way things are done and suggesting alternatives that are risky, novel, and unconventional.

# Develop Your Servant Leadership Skills

One of the influential leadership paradigms involves leaders putting others first. This could be a hard transition for an achievement-oriented and success-driven manager who rises to high levels. Here are some tips to achieve servant leadership (Buchanan, 2007; Douglas, 2005; Ramsey, 2005).

*Don't ask what your employees can do for you.* Think of what you can do for them. Your job as a leader is to be of service to them. How can you relieve their stress? Protect them from undue pressure? Pitch in to help them? Think about creative ways of helping ease their lives.

*One of your key priorities should be to help employees reach their goals.* This involves getting to know them. Learn about who they are and what their values and priorities are.

*Be humble.* You are not supposed to have all the answers and dictate to others. One way of achieving this humbleness may be to do volunteer work.

*Be open with your employees.* Ask them questions. Give them information so that they understand what is going on in the company.

*Find ways of helping the external community.* Giving employees opportunities to be involved in community volunteer projects or even thinking and strategizing about making a positive impact on the greater community would help.

# Develop Your Authentic Leadership Skills

Authentic leaders have high levels of self-awareness and their behavior is driven by their core personal values. This leadership approach recognizes the importance of self-reflection and understanding one's life history. Address the following questions to gain a better understanding of your own core values and authentic leadership style.

## Understand Your History

- *Review your life history.* What are the major events in your life? How did these events make you the person you are right now?
- *Think about your role models.* Who were your role models as you were growing up? What did you learn from your role models?

# Take Stock of Who You Are Now

- *Describe your personality.* How does your personality affect your life?
- *Know your strengths and weaknesses.* What are they and how can you continue to improve yourself?

## Reflect on Your Successes and Challenges

- *Keep a journal.* Research shows that journaling is an effective tool for self-reflection. Write down challenges you face and how you will surmount them; periodically review your entries to check your progress.

# Make Integrity a Priority

- *Understand your core values.* What are your core values? Name three of your most important values.
- *Do an ethics check.* Are you being consistent with your core values? If not, how can you get back on track?

# Understand the Power of Words

- *Words shape reality.* Keep in mind that the words you use to describe people and situations matter. For example, how might the daily reality be different if you refer to those you manage as associates or team members rather than employees or subordinates?

In view of your answers to the questions above, what kind of a leader would you be if you truly acted out your values? How would people working with you respond to such a leadership style?

## *Key Takeaway*

The various leadership styles have their pros and cons. It is valuable to be able to assess them in light of your situation and your personal style. Authenticity has become recognized as being important regardless of the other leadership styles one uses. Anyone can be an authentic leader if he or she develops those skills. There is no time like the present to start!

## *Exercises*

1. What is the connection between leadership and ethics?
2. Do you believe that ethical leaders are more successful in organizations?
3. Have you ever had an authentic leader? What did this person do that made you consider him or her to be authentic? How effective was his or her leadership?

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PART VII

# CHAPTER 7: DEVELOPING MISSION, VISION, AND VALUES

- 7.1 Developing Mission, Vision, and Values
- 7.2 Case in Point: Xerox Motivates Employees for Success
- 7.3 The Roles of Mission, Vision, and Values
- 7.4 Mission and Vision in the P-O-L-C Framework
- 7.5 Creativity and Passion
- 7.6 Stakeholders
- 7.7 Crafting Mission and Vision Statements
- 7.8 Developing Your Personal Mission and Vision



# 7.1 Developing Mission, Vision, and Values

## *What's in It for Me?*

Reading this chapter will help you do the following:

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

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

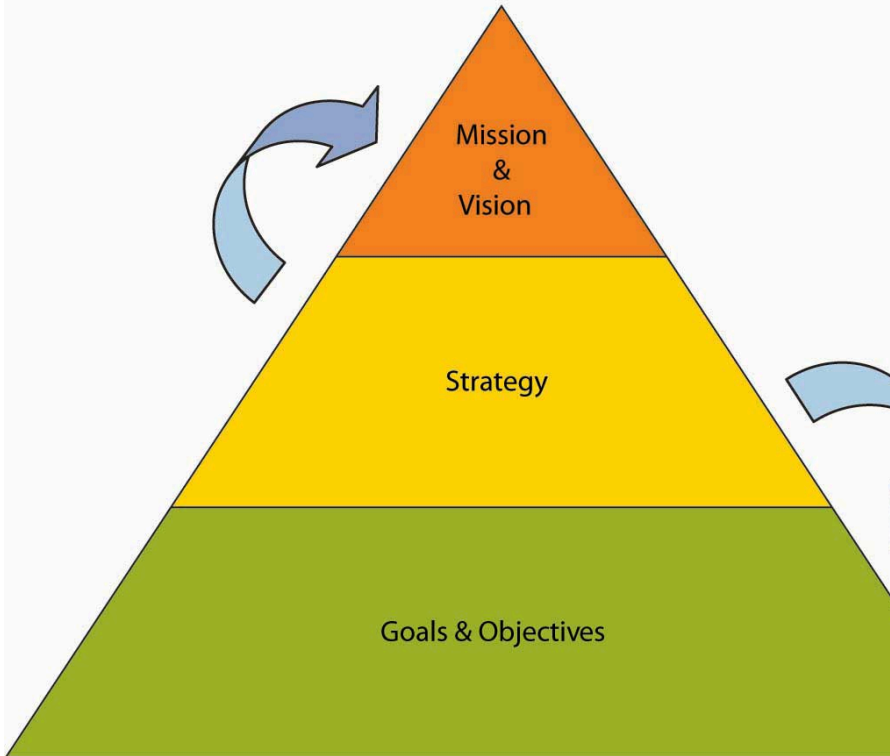
emotional component in that they incite employees to delight customers. The three “planning” topics of your principles of management cover (1) mission and vision, (2) strategy, and (3) goals and objectives. The figure summarizes how these pieces work together.

Figure 7.2 Mission and Vision as P-O-L-C Components

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

Figure 7.3 Mission and Vision in the Planning Process

The strategy is how the firm aims to realize its mission and vision



Goals and objectives are the indicators of how well the strategy is successful

## 7.2 Case in Point: Xerox Motivates Employees for Success

Figure 7.4



Anne Mulcahy, Former Xerox Chairman of the Board (left), and Ursula Burns, Xerox CEO (right)

Fortune Live Media – [Fortune Most Powerful Women 2012](#) – CC BY-NC-

As of 2010, Xerox Corporation (NYSE: XRX) is a \$22 billion, multinational company founded in 1906 and operating in 160 countries. Xerox is headquartered in Norwalk, Connecticut, and employs 130,000 people. How does a company of such size and magnitude effectively manage and motivate employees from diverse backgrounds and experiences? Such companies depend on the productivity and performance of their employees. The journey over the last 100 years has withstood many successes and failures. In 2000, Xerox was facing bankruptcy after years of mismanagement, piles of debt, and mounting questions about its accounting practices.

Anne Mulcahy turned Xerox around. Mulcahy joined Xerox as an employee in 1976 and moved up the corporate ladder, holding several management positions until she became CEO in 2001. In 2005, Mulcahy was named by *Fortune* magazine as the second most powerful woman in business. Based on a lifetime of experience with Xerox, she knew that the company had powerful employees who were not motivated when she took over. Mulcahy believed that among other key businesses changes, motivating employees at Xerox was a key way to pull the company back from the brink of failure. One of her guiding principles was a belief that in order to achieve customer satisfaction, employees must be treated as key stakeholders and become interested and motivated in their work. Mulcahy not only successfully saw the company through this difficult time

but also was able to create a stronger and more focused company.

In 2009, Mulcahy became the chairman of Xerox's board of directors and passed the torch to Ursula Burns, who became the new CEO of Xerox. Burns became not only the first African American woman CEO to head a Standard & Poor's (S&P) company but also the first woman to succeed another woman as the head of an S&P 100 company. Burns is also a lifetime Xerox employee who has been with the company for over 30 years. She began as a graduate intern and was hired full time after graduation. Because of her tenure with Xerox, she has close relationships with many of the employees, which provides a level of comfort and teamwork. She describes Xerox as a nice family. She maintains that Mulcahy created a strong and successful business but encouraged individuals to speak their mind, to not worry about hurting one another's feelings, and to be more critical.

Burns explains that she learned early on in her career, from her mentors at Xerox, the importance of managing individuals in different ways and not intentionally intimidating people but rather relating to them and their individual perspectives. As CEO, she wants to encourage people to get things done, take risks, and not be afraid of those risks. She motivates her teams by letting them know what her intentions and priorities are. The correlation between a manager's leadership style and the productivity and motivation of employees is apparent at Xerox, where employees feel a sense of importance and a part of the process necessary to maintain a successful and profitable business. In 2010, Anne Mulcahy retired from her position on the board of directors to pursue new projects.



Case written based on information from Tompkins, N. C. (1992, November 1). Employee satisfaction leads to customer service. *AllBusiness*. Retrieved April 5, 2010, from <http://www.allbusiness.com/marketing/market-research/341288-1.html>; 50 most powerful women. (2006). *Fortune*. Retrieved April 5, 2010, from <http://money.cnn.com/popups/2006/fortune/mostpowerfulwomen/2.html>; Profile: Anne M. Mulcahy. (2010). *Forbes*. Retrieved April 5, 2010, from <http://people.forbes.com/profile/anne-m-mulcahy/19732>; Whitney, L. (2010, March 30). Anne Mulcahy to retire as Xerox chairman. CNET News. Retrieved April 5, 2010, from [http://news.cnet.com/8301-1001\\_3-20001412-92.html](http://news.cnet.com/8301-1001_3-20001412-92.html); Bryant, A. (2010, February 20). Xerox's new chief tries to redefine its culture. *New York Times*. Retrieved April 5, 2010, from <http://www.nytimes.com/2010/02/21/business/21xerox.html?pagewanted=18dpc>.

## Discussion Questions

1. In terms of the P-O-L-C framework, what values do

the promotion and retention of Mulcahy and Burns suggest are important at Xerox? How might these values be reflected in its vision and mission statements?

2. How do you think Xerox was able to motivate its employees through the crisis it faced in 2000?
3. How do CEOs with large numbers of employees communicate priorities to a worldwide workforce?
4. How might Ursula Burns motivate employees to take calculated risks?
5. Both Anne Mulcahy and Ursula Burns were lifetime employees of Xerox. How does an organization attract and keep individuals for such a long period of time?

## 7.3 The Roles of Mission, Vision, and Values

### *Learning Objectives*

1. Be able to define mission and vision.
2. See how values are important for mission and vision.
3. Understand the roles of vision, mission, and values in the P-O-L-C framework.

## Mission, Vision, and Values

Mission and vision both relate to an organization's purpose and are typically communicated in some written form. Mission and vision are statements from the organization that answer questions about who we are, what do we value, and where we're going. A study by the consulting firm Bain and Company reports that 90% of the 500 firms surveyed issue some form of mission and vision statements (Bart & Baetz, 1998). Moreover, firms with clearly communicated, widely understood, and collectively shared mission and vision have

been shown to perform better than those without them, with the caveat that they related to effectiveness only when strategy and goals and objectives were aligned with them as well (Bart, et. al., 2001).

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

1. *Provide a great work environment and treat each other with respect and dignity.*
2. *Embrace diversity as an essential component in the way we do business.*
3. *Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.*
4. *Develop enthusiastically satisfied customers all of the time.*
5. *Contribute positively to our communities and our environment.*
6. *Recognize that profitability is essential to our future success* (Starbucks, 2008).

Similarly, Toyota declares its global corporate principles to be:

1. *Honor the language and spirit of the law of every nation and undertake open and fair corporate activities to be a good corporate citizen of the world.*
2. *Respect the culture and customs of every nation and contribute to economic and social development through corporate activities*

*in the communities.*

3. *Dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through all our activities.*
4. *Create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide.*
5. *Foster a corporate culture that enhances individual creativity and teamwork value, while honoring mutual trust and respect between labor and management.*
6. *Pursue growth in harmony with the global community through innovative management.*
7. *Work with business partners in research and creation to achieve stable, long-term growth and mutual benefits, while keeping ourselves open to new partnerships (Toyota, 2008).*

A vision statement, in contrast, is a future-oriented declaration of the organization's purpose and aspirations. In many ways, you can say that the mission statement lays out the organization's "purpose for being," and the vision statement then says, "based on that purpose, this is what we want to become." The strategy should flow directly from the vision, since the strategy is intended to achieve the vision and thus satisfy the organization's mission. Typically, vision statements are relatively brief, as in the case of Starbucks's vision statement, which reads: "Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow (Starbucks, 2008)." Or ad firm Ogilvy & Mather, which states their vision as "an agency defined by its devotion to brands (Ogilvy, 2008)." Sometimes the vision statement is also captured in a short tag line, such as Toyota's "moving forward" statement that appears in most communications to customers, suppliers, and employees (Toyota, 2008). Similarly, Wal-Mart's tag-line version of its vision statement is "Save money. Live better (Walmart, 2008)."

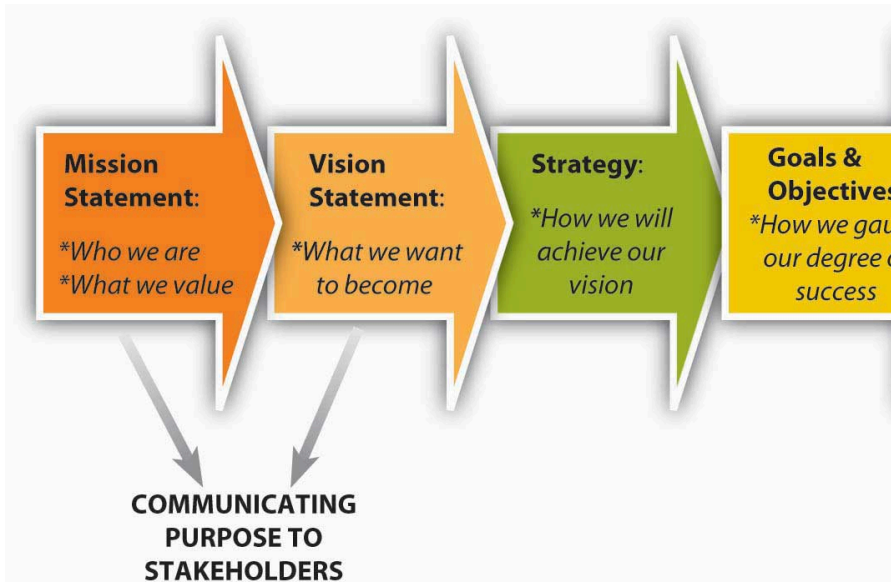
Any casual tour of business or organization Web sites will expose

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

## Roles Played by Mission and Vision

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

Figure 7.5 Key Roles of Mission and Vision



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

Second, mission and vision create a target for strategy development. That is, one criterion of a good strategy is how well it

helps the firm achieve its mission and vision. To better understand the relationship among mission, vision, and strategy, it is sometimes helpful to visualize them collectively as a funnel. At the broadest part of the funnel, you find the inputs into the mission statement. Toward the narrower part of the funnel, you find the vision statement, which has distilled down the mission in a way that it can guide the development of the strategy. In the narrowest part of the funnel you find the strategy—it is clear and explicit about what the firm will do, and not do, to achieve the vision. Vision statements also provide a bridge between the mission and the strategy. In that sense the best vision statements create a tension and restlessness with regard to the status quo—that is, they should foster a spirit of continuous innovation and improvement. For instance, in the case of Toyota, its “moving forward” vision urges managers to find newer and more environmentally friendly ways of delighting the purchaser of their cars. London Business School professors Gary Hamel and C. K. Prahalad describe this tense relationship between vision and strategy as stretch and ambition. Indeed, in a study of such able competitors as CNN, British Airways, and Sony, they found that these firms displaced competitors with stronger reputations and deeper pockets through their ambition to stretch their organizations in more innovative ways (Hamel & Prahalad, 1993).

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



## *Key Takeaway*

Mission and vision both relate to an organization's purpose and aspirations, and are typically communicated in some form of brief written statements. A mission statement communicates the organization's reason for being and how it aspires to serve its key stakeholders. The vision statement is a narrower, future-oriented declaration of the organization's purpose and aspirations. Together, mission and vision guide strategy development, help communicate the organization's purpose to stakeholders, and inform the goals and objectives set to determine whether the strategy is on track.

## *Exercises*

1. What is a mission statement?
2. What is a vision statement?
3. How are values important to the content of mission and vision statements?
4. Where does the purpose of mission and vision overlap?
5. How do mission and vision relate to a firm's strategy?
6. Why are mission and vision important for organizational goals and objectives?

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

### *Learning Objectives*

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

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

## Mission, Vision, and

# Organizing

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

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

To organize, you must connect people with each other in meaningful and purposeful ways. Further, you must connect people—human resources—with the information and technology necessary for them to be successful. Organization structure defines the formal relationships among people and specifies both their roles and their responsibilities. Administrative systems govern the organization through guidelines, procedures, and policies. Information and technology define the process(es) through which

members achieve outcomes. Each element must support each of the others, and together they must support the organization's purpose, as reflected in its mission and vision.

Figure 7.6



Pixar's creative prowess is reinforced by Disney's organizational design choices.

Tim Norris – [Wall•E : What's out there?](#) – CC BY-NC-ND 2.0.

For example, in 2006, Disney acquired Pixar, a firm is renowned for its creative prowess in animated entertainment. Disney summarizes the Pixar strategy like this: “Pixar’s [strategy] is to combine proprietary technology and world-class creative talent to develop computer-animated feature films with memorable

characters and heartwarming stories that appeal to audiences of all ages (Pixar, 2008).” Disney has helped Pixar achieve this strategy through an important combination of structural design choices. First, Pixar is an independent division of Disney and is empowered to make independent choices in all aspects of idea development. Second, Pixar gives its “creatives”—its artists, writers, and designers—great leeway over decision making. Third, Pixar protects its creatives’ ability to share work in progress, up and down the hierarchy, with the aim of getting it even better. Finally, after each project, teams conduct “postmortems” to catalog what went right and what went wrong. This way, innovations gained through new projects can be shared with later projects, while at the same time sharing knowledge about potential pitfalls (Catmull, 2008).

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

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

For instance, in 2000, Procter & Gamble (P&G) sought to change a fundamental part of its vision in a way that asked the organization to source more of its innovations from external partners. Historically, P&G had invested heavily in research and development and internal sources of innovation—so much so that “not invented here” (known informally as NIH) was the dominant cultural mind-set (Lafley & Charan, 2008). NIH describes a sociological, corporate, or institutional culture that avoids using products, research, or knowledge that originated anywhere other than inside the

organization. It is normally used in a pejorative sense. As a sociological phenomenon, the “not invented here” syndrome is manifested as an unwillingness to adopt an idea or product because it originates from another culture. P&G has been able to combat this NIH bias and gradually change its culture toward one that is more open to external contributions, and hence in much better alignment with its current mission and vision.

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

# Mission, Vision, and Leading

Leading involves influencing others toward the attainment of organizational objectives. Leading and leadership are nearly synonymous with the notions of mission and vision. We might describe a very purposeful person as being “on a mission.” As an example, Steve Demos had the personal mission of replacing cow’s milk with soy milk in U.S. supermarkets, and this mission led to his vision for, and strategy behind, the firm White Wave and its Silk line of soy milk products (Carpenter & Sanders, 2006). Similarly, we typically think of some individuals as leaders because they are visionary. For instance, when Walt Disney suggested building a theme park in a Florida swamp back in the early 1960s, few other people in the world seemed to share his view.

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

In most cases where we think of revolutionary companies, we associate the organization’s vision with its leader—for instance, Apple and Steve Jobs, Dell and Michael Dell, or Google with the team of Sergey Brin and Larry Page. Most important, in all three of these organizations, the leaders focused on creating an organization with a noble mission that enabled the employees and management team to achieve not only the strategic breakthrough but to also realize their personal dreams in the process. Speaking to the larger



relationship between mission, vision, strategy, and leadership, are the Eight principles of visionary leadership, derived from Shiba's 2001 book, *Four Practical Revolutions in Management* (summarized in "Eight Principles of Visionary Leadership")(Shiba & Walden, 2001).

## Eight Principles of Visionary Leadership

- **Principle 1:** The visionary leader must do on-site observation leading to *personal perception* of changes in *societal values* from an outsider's point of view.
- **Principle 2:** Even though there is resistance, *never give up*; squeeze the resistance between *outside-in* (i.e., customer or society-led) pressure in combination with *top-down* inside instruction.
- **Principle 3:** Revolution is begun with *symbolic disruption* of the old or traditional system through *top-down* efforts to create chaos within the organization.
- **Principle 4:** The direction of revolution is illustrated by a *symbolically visible image* and the visionary leader's *symbolic behavior*.
- **Principle 5:** Quickly establishing new *physical*,

*organizational, and behavioral systems is essential for successful revolution.*

- **Principle 6:** *Real change leaders are necessary to enable revolution.*
- **Principle 7:** *Create an innovative system to provide feedback from results.*
- **Principle 8:** *Create a daily operation system, including a new work structure, new approach to human capabilities and improvement activities.*

## Vision That Pervades the Organization

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

The classic case about Johnsonville Sausage, recounted by CEO

Ralph Stayer, documents how that company dramatically improved its fortunes after Stayer shared responsibility for the mission and vision, and ultimately development of the actual strategy, with all of his employees. His vision was the quest for an answer to “What Johnsonville would have to be to sell the most expensive sausage in the industry and still have the biggest market share (Stayer, 1990)?” Of course, he made other important changes as well, such as decentralizing decision making and tying individual’s rewards to company-wide performance, but he initiated them by communicating the organization’s mission and vision and letting his employees know that he believed they could make the choices and decisions needed to realize them.

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

## Vision, Mission, and Controlling

Controlling involves ensuring that performance does not deviate

from standards. Controlling consists of three steps: (1) establishing performance standards, (2) comparing actual performance against standards, and (3) taking corrective action when necessary. Mission and vision are both directly and indirectly related to all three steps.

## Performance Standards

Recall that mission and vision tell a story about an organization's purpose and aspirations. Mission and vision statements are often ambiguous by design because they are intended to *inform* the strategy not *be* the strategy. Nevertheless, those statements typically provide a general compass heading for the organization and its employees. For instance, vision may say something about innovativeness, growth, or firm performance, and the firm will likely have set measurable objectives related to these. Performance standards often exceed actual performance but, ideally, managers will outline a set of metrics that can help to predict the future, not just evaluate the past.

It is helpful to think about such metrics as leading, lagging, and pacing indicators. A leading indicator actually serves to predict where the firm is going, in terms of performance. For instance, General Electric asks customers whether they will refer it new business, and GE's managers have found that this measure of customer satisfaction does a pretty good job of predicting future sales. A pacing indicator tells you in real time that the organization is on track, for example, in on-time deliveries or machinery that is in operation (as opposed to being under repair or in maintenance). A lagging indicator is the one we are all most familiar with. Firm

financial performance, for instance, is an accounting-based summary of how well the firm has done historically. Even if managers can calculate such performance quickly, the information is still historic and not pacing or leading. Increasingly, firms compile a set of such leading, lagging, and pacing goals and objectives and organize them in the form of a dashboard or Balanced Scorecard.

## Actual Versus Desired Performance

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

# Corrective Action

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

Strategic human resources management (SHRM) reflects the aim of integrating the organization's human capital—its people—into the mission and vision. Human resources management alignment means to integrate decisions about people with decisions about the results an organization is trying to obtain. Research indicates that organizations that successfully align human resources management with mission and vision accomplishment do so by integrating SHRM into the planning process, emphasizing human resources activities that support mission goals, and building strong human resources/management capabilities and relationships (Gerhart & Rynes, 2003).

## *Key Takeaway*

In addition to being a key part of the planning process, mission and vision also play key roles in the organizing, leading, and controlling functions of management. While mission and vision start the planning function, they are best realized when accounted for across all four functions of management—P-O-L-C. In planning, mission and vision help to generate specific goals and objectives and to develop the strategy for achieving them. Mission and vision guide choices about organizing, too, from structure to organizational culture. The cultural dimension is one reason mission and vision are most effective when they pervade the leadership of the entire organization, rather than being just the focus of senior management. Finally, mission and vision are tied to the three key steps of controlling: (1) establishing performance standards, (2) comparing actual performance against standards, and (3) taking corrective action when necessary. Since people make the place, ultimately strategic human resources management must bring these pieces together.

## *Exercises*

1. How might mission and vision influence organizational design?
2. How might mission and vision influence leadership

practices?

3. Why might a specific replacement CEO candidate be a good or poor choice for a firm with an existing mission and vision?
4. Which aspects of controlling do mission and vision influence?
5. Why are mission and vision relevant to the management of internal organizational social networks?
6. What performance standards might reinforce a firm's mission and vision?
7. What is the role of mission and vision with strategic human resource management?

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## 7.5 Creativity and Passion

### *Learning Objectives*

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

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

## Figure 7.7



Entrepreneurs are creative and passionate about their ideas, two characteristics we often associate with vision and visionaries.

[StartupStockPhotos](#) – CC0 public domain.

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

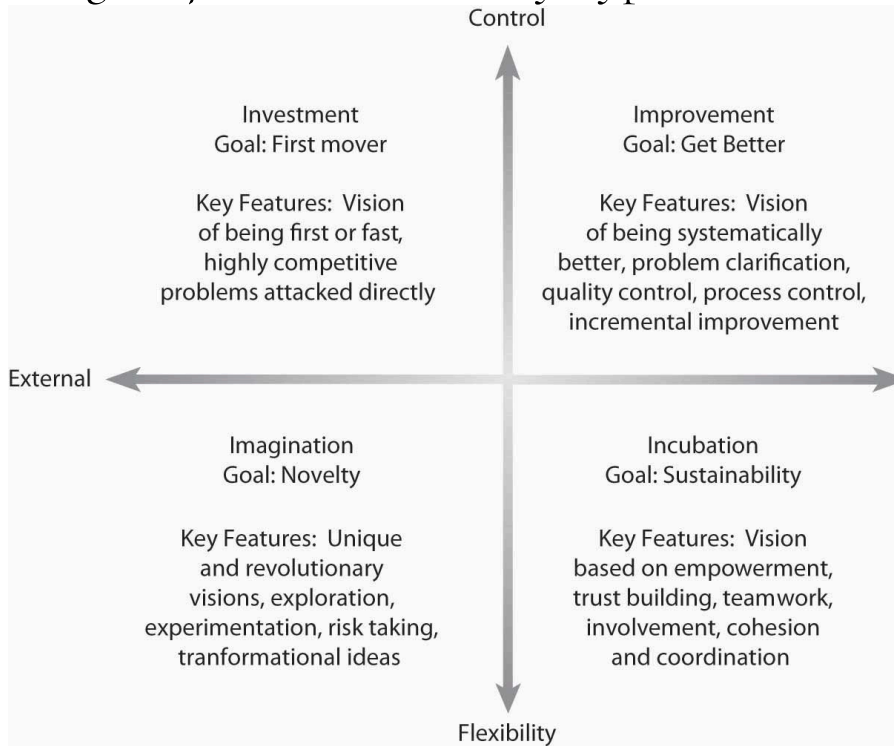
# Creativity and Vision

More recently, work by DeGraf and Lawrence, suggest a finer-grained view into the characteristics and types of creativity (DeGraf & Lawrence, 2002). They argued that creativity “types” could be clustered based on some combination of flexibility versus control and internal versus external orientation. For the manager, their typology is especially useful as it suggests ways to manage creativity, as in simply hiring creative individuals. As summarized in the figure, their research suggests that there are four types of creativity: (1) investment (external orientation with high control), (2) imagination (external orientation with flexibility emphasis), (3) improvement (internal orientation with high control), and (4) incubation (internal orientation with flexibility emphasis).

The first type of creativity, *investment*, is associated with speed—being first and being fast. It is also a form of creativity fostered from the desire to be highly competitive. Perhaps one of the most recent examples of this type of creativity crucible is the beer wars—the battle for U.S. market share between SABMiller and Anheuser Busch (AB; Budweiser). Miller was relentless in attacking the quality of AB’s products through its advertisements, and at the same time launched a myriad number of new products to take business from AB’s stronghold markets (Biz Journals, 2008).

The second type of creativity, *imagination*, is the form that most of us think of first. This type of creativity is characterized by new ideas and breakthroughs: Apple’s stylish design of Macintosh computers and then game-changing breakthroughs with its iPod and iPhone. Oftentimes, we can tie this type of creativity to the drive or genius of a single individual, such as Apple’s Steve Jobs.

## Figure 7.8 Four Creativity Types



Adapted from DeGraf, J., & Lawrence, K. A. (2002). *Creativity at Work: Developing the Right Practices to Make It Happen*. San Francisco: Jossey-Bass.

Where big ideas come from the imagination quadrant, *improvement* is a type of creativity that involves making an existing idea better. Two great examples of this are McDonald's and Toyota. Ray Kroc, McDonald's founder, had the idea of creating quality and cooking standards for preparing tasty burgers and fries. While there were many other burger joints around at the time (the 1950s), Kroc's unique process-oriented approach gave McDonald's a big advantage. Similarly, Toyota has used the refinement of its automaking and auto-assembly processes (called the Toyota

Business System) to be one of the largest and most successful, high-quality car makers in the world.

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

“Mahatma Gandhi was probably the only person in modern history who has single-handedly stopped a war. Lone individuals have started wars, but Gandhi was creative enough to stop one. He did so by mobilizing networks of people to pursue a clear vision and set of values. Gandhi would probably have been completely noncreative and ineffective had he not been adept at capitalizing on incubation dynamics. By mobilizing people to march to the sea to make salt, or to burn passes that demarcated ethnic group status, Gandhi was able to engender creative outcomes that had not been considered possible. He was a master at incubation by connecting, involving, and coordinating people (Whetten & Camerson, 2007).”

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

# Creativity Tools

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

All these tools help you to manage two divergent forms of thinking necessary for creativity—programmed thinking and lateral thinking. Programmed thinking often called left-brained thinking, relies on logical or structured ways of creating a new product or service. In terms of mission and vision, this means a logical and deliberate process is used to develop the vision statement. Lateral thinking a term coined by Edward DeBono in his book *The Use of Lateral Thinking* (1967), is about changing patterns and perceptions; it is about ideas that may not be obtainable by using only traditional step-by-step, programmed, logic (De Bono, 1992). Lateral thinking draws on the right side of our brains.

Each type of approach—programmed versus lateral—has its strength. Logical and disciplined programmed thinking is enormously effective in making products and services better. It can, however, only go so far before all practical improvements have been carried out. Lateral thinking can generate completely new concepts and ideas and brilliant improvements to existing systems. In the wrong place, however, it can be impractical or unnecessarily disruptive.

# SCAMPER

Developed by Bob Eberle, SCAMPER is a checklist tool that helps you to think of changes you can make to an existing marketplace to create a new one—a new product, a new service, or both (Eberle, 1997). You can use these changes either as direct suggestions or as starting points for lateral thinking. This, in turn, can inspire a new vision statement. Table 4.1 “Creativity through SCAMPER” provides you with the SCAMPER question steps and examples of new products or services that you might create.

## Table 7.1 Creativity through SCAMPER



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

As shown in the [Table 4.1 “Creativity through SCAMPER”](#), by taking a topic or problem and then using SCAMPER, you can generate possible new products. It may be some combination of these SCAMPER changes that lead to highly innovative solutions. For instance, the entertainment company Cirque du Soleil has modeled its shows on the traditional circus. However, it has adapted aspects of theater and opera, eliminated animals, and reduced the number of rings from three to one. As a result, it offers a highly stylized (and much more expensive!) version of what, nostalgically, we call a circus today. Many of the ideas may be impractical. However, some of these ideas could be good starting points for a new organization or revision of the vision for an existing one.

# Nominal Group Technique

The Nominal Group Technique (NGT) is a method of facilitating a group of people to produce a large number of ideas in a relatively short time.<sup>1</sup> In addition to using NGT to develop a mission and vision statement, it can be useful:

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

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

# NGT Preparation and Supplies

Formulate your discussion question. Ensure that the wording prevents misunderstanding and is objective.

Supplies needed include:

- Flip chart for each table
- Masking tape
- 3 × 5 cards for each participant
- Work tables
- Felt pens

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

# NGT Procedure

1. Introduction: Briefly welcome participants, clarify the purpose of the group exercise, and explain the procedure to be followed and how results are to be used.
2. Present question: Orally present the question that is written on the flip chart; clarify as needed.
3. Silent generation of ideas: Each participant silently thinks of and writes down (on 3 × 5 card) as many ideas as possible. Allow 5 to 10 minutes.
4. Record ideas: In turn, each participant reads aloud one idea, and it is recorded on the flip chart for all to see.
5. Continue until all ideas are recorded.
6. Discourage discussion, not even questions for clarification.
7. Encourage “hitchhiking,” that is, expanding on another’s statement. Ideas do not have to be from the participant’s written list.
8. Participants may pass a turn and then add an idea at a subsequent turn.
9. Discourage combining ideas from individuals unless they are exactly the same.

10. Group discussion: After all ideas are recorded, the person who suggested the idea is given the opportunity to explain it further.
11. Duplicates may be combined.
12. Wording may be changed if the originator agrees.
13. Ideas are deleted only by unanimous agreement.
14. Restrict discussion to clarify meaning; the value or merit of ideas is not discussed.

## Passion and Vision

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

# Passion as Inspiration

Entrepreneur Curt Rosengren makes this observation about the relationship between passion and entrepreneurship: “Strangely, in spite of its clear importance, very few entrepreneurs or managers consciously incorporate passion into their decisions, ultimately leaving one of their most valuable assets on their path to success largely to chance, even though there is little question that passion can be a part of vision creation (Astroprojects, 2008).” Rosengren comments further that:

“Passion is the essence of the entrepreneurial spirit. It is an entrepreneur’s fuel, providing the drive and inspiration to create something out of nothing while enduring all the risks, uncertainty, and bumps in the road that that entails.

“Entrepreneurs’ lives consist of a nonstop mission to communicate their vision and inspire others to support their efforts. As evangelists, salespeople, fundraisers, and cheerleaders they need to breathe life into their vision while enlisting others in their dream. From creating a vision for the future to selling the idea to investors, from attracting high-quality employees to inspiring them to do what nobody thought possible, that passion is a key ingredient.

“Passion also plays a key role in their belief that they can achieve the so-called impossible, bouncing back from failure and ignoring the chorus of No that is inevitably part of the entrepreneurial experience.

“Robin Wolaner, founder of Parenting magazine and author of *Naked In The Boardroom: A CEO Bares Her Secrets So You Can Transform Your Career*, put it succinctly when she said, ‘To succeed in starting a business you have to suspend disbelief, because the odds are against you. Logic is going to stop you.’ Passion, on the other hand, will help you fly (Astroprojects, 2008).”

# Passion About the Vision

Passion doesn't just have benefits for the individual entrepreneur or manager when formulating a vision statement, it can help the whole business thrive. While there is little academic research on the relationship between passion and vision, studies suggest that fostering engagement, a concept related to passion, in employees has a significant effect on the corporate bottom line. Gallup, for instance, has been on the forefront of measuring the effect of what it calls employee engagement. Employee engagement is a concept that is generally viewed as managing discretionary effort; that is, when employees have choices, they will act in a way that furthers their organization's interests. An engaged employee is fully involved in, and enthusiastic about, his or her work (Gallup, 2008). The consulting firm BlessingWhite offers this description of engagement and its value (and clear relationship with passion):

“Engaged employees are not just committed. They are not just passionate or proud. They have a line-of-sight on their own future and on the organization's mission and goals. They are ‘enthused’ and ‘in gear’ using their talents and discretionary effort to make a difference in their employer's quest for sustainable business success(Employee Engagement Report, 2008).”

Engaged employees are those who are performing at the top of their abilities and happy about it. According to statistics that Gallup has drawn from 300,000 companies in its database, 75%–80% of employees are either “disengaged” or “actively disengaged (Gallup, 2008).”

That's an enormous waste of potential. Consider Gallup's estimation of the impact if 100% of an organization's employees were fully engaged:

- Customers would be 70% more loyal.

- Turnover would drop by 70%.
- Profits would jump by 40%.

Job satisfaction studies in the United States routinely show job satisfaction ratings of 50%–60%. But one recent study by Harris Interactive of nearly 8,000 American workers went a step further (Age Wave, 2008). What did the researchers find?

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

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

### *Key Takeaway*

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



## Exercises

1. What is creativity?
2. Why is creativity relevant to vision and vision statements?
3. What are some useful creativity tools?
4. What is passion?
5. Why is passion relevant to vision and vision statements?
6. What is the relationship between passion and engagement?

<sup>1</sup>This section is reproduced with permission of the University of Wisconsin Extension Program. A circulation version can be found at <http://www.uwex.edu/ces/pdande/resources/pdf/Tipsheet3.pdf> (retrieved October 28, 2008). Additional information on NGT can be gained by reading the following: Delbecq, A., Van de Ven, A., & Gustafson, D. (1975). *Group Techniques for Program Planning: A Guide to Nominal Group and Delphi Processes*. Glenview, IL: Scott, Foresman; Tague, N. (1995). *The Quality Toolbox*. Milwaukee, WI: ASQC Quality Press; Witkin, B., & Altschuld, J. (1995). *Planning and Conducting Needs Assessment: A Practical Guide*. Thousands Oaks, CA, Sage.

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## 7.6 Stakeholders

### *Learning Objectives*

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

Figure 7.9



Government tends to be a key stakeholder for every organization.

Kevin Harber – [GOVERNMENT](#) – CC BY-NC-ND 2.0.

# Stakeholders and Stakeholder Analysis

Stakeholders are individuals or groups who have an interest in an organization's ability to deliver intended results and maintain the viability of its products and services. We've already stressed the

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

Considering these factors in the development of a firm's mission and vision is a good place to start, but first, of course, you must identify critical stakeholders, get a handle on their short- and long-term interests, calculate their potential influence on your strategy, and take into consideration how the firm's strategy might affect the stakeholders (beneficially or adversely). Table 4.2 "Stakeholder Categories" provides one way to begin thinking about the various stakeholder groups, their interests, importance, and influence. Influence reflects a stakeholder's relative power over and within an organization; importance indicates the degree to which the organization cannot be considered successful if a stakeholder's needs, expectations, and issues are not addressed.

## Table 7.2 Stakeholder Categories

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

Adapted from <http://www.stsc.hill.af.mil/crosstalk/2000/12/smith.html>.

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

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

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

# Stakeholders, Mission, and Vision

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

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

# Identifying Stakeholders

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

## Figure 7.10 Stakeholder Mapping



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

Adapted from Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Boston: Pitman.

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

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

stakeholders include shareholders, business units, employees, and managers.

## Steps in Identifying Stakeholders

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

*Step 1: Determining Influences on Mission, Vision, and Strategy Formulation.* One way to analyze the importance and roles of the individuals who compose a stakeholder group is to identify the people and teams who should be consulted as strategy is developed or who will play some part in its eventual implementation. These are *organizational stakeholders*, and they include both high-level managers and frontline workers. *Capital-market stakeholders* are groups that affect the availability or cost of capital—shareholders, venture capitalists, banks, and other financial intermediaries. *Product-market stakeholders* include parties with whom the firm shares its industry, including suppliers and customers. Social stakeholders consist broadly of external groups and organizations that may be affected by or exercise influence over firm strategy

and performance, such as unions, governments, and activist groups. The next two steps are to determine how various stakeholders are affected by the firm's strategic decisions and the degree of power that various stakeholders wield over the firm's ability to choose a course of action.

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

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

*Step 3: Determining Stakeholders' Power and Influence over Decisions.* The third step of a stakeholder analysis is to determine the degree to which a stakeholder group can exercise power and

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

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

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

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

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

## Two Challenges

Two of the challenges of performing stakeholder analysis are determining how stakeholders are affected by a firm's decisions and how much influence they have over the implementation of the decisions that are made. Many people have a tendency to fall into the trap of assessing all stakeholders as being important on both dimensions. In reality, not all stakeholders are affected in the same way and not all stakeholders have the same level of influence in determining what a firm does. Moreover, when stakeholder analysis is executed well, the resulting strategy has a better chance of succeeding, simply because the entities you might rely on in the

implementation phase were already involved in the strategy starting with the formulation phase. Thus, you now have a good idea of how to engage various stakeholders in all the stages of the P-O-L-C framework.

### *Key Takeaway*

This section introduced stakeholders, their roles, and how to begin assessing their roles in the development of the organization's mission and vision. While any person or organization with a stake in your organization is a stakeholder, managers are most concerned with those stakeholders who have the most influence on, or will be most influenced by, the organization. On the basis of your assessment of stakeholders, you now can be proactive in involving them in the P-O-L-C stages.

### *Exercises*

1. What are stakeholders, and why are they relevant to mission and vision?
2. Are stakeholders equally relevant to all parts of P-O-L-C, or only mission and vision?
3. What is stakeholder analysis? What are the three identification steps?
4. How does stakeholder analysis help you craft a mission and vision statement?

5. Which important stakeholders might you intentionally exclude from a mission or vision statement?
6. What are the risks of not conducting stakeholder analysis as an input to the formulation of your mission and vision?

## 7.7 Crafting Mission and Vision Statements

### *Learning Objectives*

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

## Communicating and Monitoring Mission and Vision

At this point, you have an understanding of what a mission and vision statement is and how creativity, passion, and stakeholder interests might be accounted for. The actual step-by-step process of developing a mission and vision might start with the mission



and vision statements, but you should think of this process more broadly in terms of multiple steps: (1) the process, (2) the content of the mission and vision statements, (3) communicating mission and vision to all relevant stakeholders, and (4) monitoring. As shown in “Process, Content, Application, and Monitoring in Mission and Vision Development,” *Information Week* contributor Sourabh Hajela breaks out one way you might manage your mission/vision development checklist. Let’s dive in to the development process first.

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

## Figure 7.11



While crafting a mission and vision is not easy, it helps to follow the right steps.

tanakawho – [Stepping stones](#) – CC BY-NC 2.0.

## Process, Content, Application, and

# Monitoring in Mission and Vision Development

- 
- **Let the business drive the mission and vision.**
- **Involve all stakeholders** in its development; otherwise, they won't consider it theirs.
- **Assign responsibility** so that it's clear how each person, including each stakeholder, can contribute.
- **Seek expert facilitation** to reach a vision supported by all.
- **Revise and reiterate;** you'll likely go through multiple iterations before you're satisfied.
- 
- **Start from where you are** to get to where you want to go.
- **Build in the values of the organization:** Every organization has a soul. Tap into yours, and adjust as needed. Mission and vision built on your values will not just hold promise but also deliver on it.
- **Build on the core competencies of the organization:** A mission and vision are useless if they

can't be put into operation. This requires recognition of your organization's strengths and weaknesses.

- **Factor in your style:** A mission and vision must reflect the leader's style. You can't sustain action that goes against it.
- **Make it visual:** A picture is worth a thousand words.
- **Make it simple to understand:** Complex language and disconnected statements have little impact—people can't implement what they don't understand.
- **Make it achievable:** A mission and vision are an organization's dreams for the future. Unachievable goals discourage people.
- **Phase it in:** Reach for the sky—in stages.
- **Make it actionable:** If it's too abstract, no one knows what to do next.
- 
- **Communicate often:** Internal communications are the key to success. People need to see the mission and vision, identify with them, and know that leadership is serious about it.
- **Create messages that relate to the audience:** To adopt a mission and vision, people must see how they can achieve it, and what's in it for them.
- **Create messages that inspire action:** It's not what you say, but how you say it.
- 
- **Use it:** Beyond printing it, posting it, and preaching it, you also need to practice what is laid out in the

mission and vision...“walk the talk”

- **Live it:** Management must lead by example.
- **Be real:** It's better to adjust the mission statement as needed than to not live up to the standards it sets.
- 
- **Identify key milestones:** While traveling to your destination, acknowledge the milestones along the way.
- **Monitor your progress:** A strategic audit, combined with key metrics, can be used to measure progress against goals and objectives.
- **Use external audit team:** An external team brings objectivity, plus a fresh perspective.

*Sourabh Hajela*

Adapted from <http://www.informationweek.com/news/management/showArticle.jhtml?articleID=17500069>  
(retrieved October 29, 2008).

# Mission and Vision-Development Process

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

## Content

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

United State's goal in the 1960s to go to the moon by the end of the decade, or Martin Luther King's vision for a nonracist America.

Recognizing that the vision statement is derived from aspects of the mission statement, it is helpful to start there. Richard O' Hallaron and his son, David R. O' Hallaron, in *The Mission Primer: Four Steps to an Effective Mission Statement*, suggest that you consider a range of objectives, both financial and nonfinancial (O'Hallaron & O'Hallaron, 2000). Specifically, the O'Hallarons find that the best mission statements have given attention to the following six areas:

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

When writing your statements, use the present tense, speaking as if your business has already become what you are describing. Use descriptive statements describing what the business looks like, feels like, using words that describe all of a person's senses. Your words will be a clear written motivation for where your business organization is headed. Mission statements, because they cover more ground, tend to be longer than vision statements, but you should aim to write no more than a page. Your words can be as long as you would like them to be, but a shorter vision statement may be easier to remember.

# Communications

The communications step of the mission and vision statements development process is analogous to the “L” (leading) part of the P-O-L-C framework. Communicate often: Internal communications are the key to success. People need to see the vision, identify with it, and know that leadership is serious about it.

Managers must evaluate both the need and the necessary tactics for persuasively communicating a strategy in four different directions: *upward*, *downward*, *across*, and *outward* (Hambrick & Cannella, 1989).

## Communicating Upward

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



# Communicating Downward

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

# Communicating Across and Outward

The need to communicate across and outward reflects the fact that realization of a mission and vision will probably require cooperation from other units of the firm (*across*) and from key external stakeholders, such as material and capital providers, complementors, and customers (*outward*). Internally, for example, the strategy may call for raw materials or services to be provided by another subsidiary; perhaps it depends on sales leads from other units. The software company Emageon couldn't get hospitals to

adopt the leading-edge visualization software that was produced and sold by one subsidiary until its hardware division started cross-selling the software as well. This internal coordination required a champion from the software side to convince managers on the hardware side of the need and benefits of working together.

## Application

It is the successful execution of this step—actually using the mission and vision statements—that eludes most organizations. “Yes, it is inconvenient and expensive to move beyond the easy path” and make decisions that support the mission statement, says Lila Booth, a Philadelphia-area consultant who is on the faculty of the Wharton Small Business Development Center. But ditching mission for expediency “is short-term thinking,” she adds, “which can be costly in the end, costly enough to put a company out of business (Krattenmaker, 2002).” That is not to say that a mission statement is written in stone. Booth cites her own consulting business. It began well before merger mania but has evolved with the times and now is dedicated in significant part to helping merged companies create common cultures. “Today, our original mission statement would be very limiting,” she says.

Even the most enthusiastic proponents acknowledge that mission statements are often viewed cynically by organizations and their constituents. That is usually due to large and obvious gaps between a company’s words and deeds. “Are there companies that have managers who do the opposite of what their missions statements dictate? Of course,” says Geoffrey Abrahams, author of *The Mission*

*Statement Book.* “Mission statements are tools, and tools can be used or abused or ignored....Management must lead by example. It’s the only way employees can live up to the company’s mission statement (Abrahams, 1999).” Ultimately, if you are not committed to using the mission statement then you are best advised not to create one.

## Monitoring

The monitoring step of the mission and vision statements development process is analogous to the “C” (controlling) part of the P-O-L-C framework. Identify key milestones that are implied or explicit in the mission and vision. Since mission and vision act like a compass for a long trip to a new land, as *Information Week’s* Hajela suggests, “while traveling to your destination, acknowledge the milestones along the way. With these milestones you can monitor your progress: A strategic audit, combined with key metrics, can be used to measure progress against goals and objectives. To keep the process moving, try using an external audit team. One benefit is that an external team brings objectivity, plus a fresh perspective (Information Week, 2008).” It also helps motivate your team to stay on track.

## *Key Takeaway*

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

## *Exercises*

1. Who should be involved in the mission and vision development process?
2. What are some key content areas for mission and vision?
3. Why are organizational values important to mission and vision?
4. Why is communication important with mission and vision?
5. To which stakeholders should the mission and vision be communicated?
6. What role does monitoring play in mission and vision?

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O'Hallaron, R., & O'Hallaron, D. (2000). *The Mission Primer: Four Steps to an Effective Mission Statement*, Richmond: Mission Incorporated. Their approach is based on Gast's Laws, a set of principles developed in the 1940s and 1950s by the late business professor Walter Gast. Among other ideas, Gast's Laws hold that businesses must be dedicated to more than making money if they are to succeed.

## 7.8 Developing Your Personal Mission and Vision

### *Learning Objectives*

1. Determine what mission and vision mean for you.
2. Develop some guidelines for developing your mission and vision.

Mission and vision are concepts that can be applied to you, personally, well beyond their broader relevance to the P-O-L-C framework. Personal mission and vision communicate the direction in which you are headed, as well as providing some explanation for why you are choosing one direction or set of objectives over others. Thinking about and writing down mission and vision statements for your life can help provide you with a compass as you work toward your own goals and objectives.

Figure 7.12



Your mission and vision reflect your personal and professional purpose and direction.

Shawn Harquail – [Kayak Tour of Mangroves, Lucayan National Park](#). – CC BY-NC 2.0.

## Your Mission and Vision

Note that the development of a personal mission and vision, and then a strategy for achieving them, are exactly the opposite of what

most people follow. Most people do not plan further ahead than their next job or activity (if they plan their career at all). They take a job because it looks attractive, and then they see what they can do with it. We advocate looking as far into the future as you can and deciding where you want to end up and what steps will lead you there. In that way, your life and your career fit into some intelligent plan, and you are in control of your own life.

## Guidelines

The first step in planning a career is obviously a long-term goal. Where do you want to end up, ultimately? Do you really want to be a CEO or president of the United States, now that you know what it costs to be either one? There are a couple basic parts to this process.

## BHAG

First, set out a bold vision—Jim Collins, author of *Good to Great*, describes this as a BHAG a big, hairy, audacious goal.



Five guiding criteria for good BHAGs is that they:

1. Are set with understanding, not bravado.
2. Fit squarely in the three circles of (a) what you are deeply passionate about (including your core values and purpose), (b) what drives your economic logic, and (c) what differentiates you (what you can be the best in the world at).
3. Have a long time frame—10 to 30 years.
4. Are clear, compelling, and easy to grasp.
5. Directly reflect your core values and core purpose.

## Values

Second, sketch out your personal values, or “Guiding Philosophy”—a set of core values and principles like your own Declaration of Independence.

## Schedule

Once the vision is set, you have to develop some long-term goal (or

goals), then intermediate-term goals, and so on. If you want to be President, what jobs will you have to take first to get there and when do you have to get these jobs? Where should you live? What training do you need? What political connections do you need? Then you have to set up an orderly plan for obtaining the connections and training that you need and getting into these steppingstone jobs.

Finally, you need to establish short-term goals to fit clearly into a coherent plan for your entire career. Your next job (if you are now a fairly young person) should be picked not only for its salary or for its opportunities for advancement but for its chances to provide you with the training and connections you need to reach your long-term goals. The job that is superficially attractive to you because it has a high salary, offers the opportunity for immediate advancement, or is located in a desirable place may be a mistake from the standpoint of your long-term career.

## Five Steps

Former business school professor, entrepreneur (founder of [www.quintcareers.com](http://www.quintcareers.com)), and colleague Randall S. Hansen, PhD, has done a masterful job of assembling resources that aim to help your career, including an excellent five-step plan for creating personal mission statements. With his generous permission, he has allowed us to reproduce his five-step plan—adapted by us to encompass both mission and vision—in this section.

# The Five-Step Plan

A large percentage of companies, including most of the *Fortune* 500, have corporate mission and vision statements (Quint Careers, 2008). Mission and vision statements are designed to provide direction and thrust to an organization, an enduring statement of purpose. A mission and vision statement act as an invisible hand that guides the people in the organization. A mission and vision statement explains the organization's reason for being and answers the question, "What business are we in?"

A personal mission and vision statement is a bit different from a company mission statement, but the fundamental principles are the same. Writing a personal mission and vision statement offers the opportunity to establish what's important and perhaps make a decision to stick to it before we even start a career. Or it enables us to chart a new course when we're at a career crossroads. Steven Covey (in *First Things First*) refers to developing a mission and vision statement as "connecting with your own unique purpose and the profound satisfaction that comes from fulfilling it (Covey, 1994)."

A personal mission and vision statement helps job seekers identify their core values and beliefs. Michael Goodman (in *The Potato Chip Difference: How to Apply Leading Edge Marketing Strategies to Landing the Job You Want*) states that a personal mission statement is "an articulation of what you're all about and what success looks like to you (Goodman, 2001)." A personal mission and vision statement also allows job seekers to identify companies that have similar values and beliefs and helps them better assess the costs and benefits of any new career opportunity.

The biggest problem most job seekers face is not in wanting to have a personal mission and vision statement but actually writing it. So, to help you get started on your personal mission and vision statement, here is a five-step mission/vision-building process. Take as much time on each step as you need, and remember to dig deeply

to develop a mission and vision statement that is both authentic and honest. To help you better see the process, Professor Hansen included an example of one friend's process in developing her mission and vision statements.

## Sample Personal Mission Statement Development

### 1. *Past success:*

- developed new product features for stagnant product
- part of team that developed new positioning statement for product
- helped child's school with fundraiser that was wildly successful
- increased turnout for the opening of a new local theater company

Themes: Successes all relate to creative problem solving and execution of a solution.

### 2. *Core values:*

- Hard working

- Industrious
- Creativity
- Problem solving
- Decision maker
- Friendly
- Outgoing
- Positive
- Family-oriented
- Honest
- Intelligent
- Compassionate
- Spiritual
- Analytical
- Passionate
- Contemplative

Most important values:

- Problem solving
- Creativity
- Analytical
- Compassionate
- Decision maker
- Positive

Most important value:

- Creativity

### 3. *Identify Contributions:*

- the world in general: develop products and services that help people achieve what they want in life. To have a lasting effect on the way

people live their lives.

- my family: to be a leader in terms of personal outlook, compassion for others, and maintaining an ethical code; to be a good mother and a loving wife; to leave the world a better place for my children and their children.
- my *employer* or future employers: to lead by example and demonstrate how innovative and problem-solving products can be both successful in terms of solving a problem and successful in terms of profitability and revenue generation for the organization.
- my friends: to always have a hand held out for my friends; for them to know they can always come to me with any problem.
- my community: to use my talents in such a way as to give back to my community.

4. *Identify Goals:*

Short term: To continue my career with a progressive employer that allows me to use my skills, talent, and values to achieve success for the firm.

Long term: To develop other outlets for my talents and develop a longer-term plan for diversifying my life and achieving both *professional* and personal success.

5. *Mission Statement:*

To live life completely, honestly, and compassionately, with a healthy dose of realism mixed with the imagination and dreams that all things

are possible if one sets their mind to finding an answer.

*Vision Statement:*

To be the CEO of a firm that I start, that provides educational exercise experiences to K–6 schools. My company will improve children's health and fitness, and create a lasting positive impact on their lives, and that of their children.

**Step 1: Identify Past Successes.** Spend some time identifying four or five examples where you have had personal success in recent years. These successes could be at work, in your community, or at home. Write them down. Try to identify whether there is a common theme—or themes—to these examples. Write them down.

**Step 2: Identify Core Values.** Develop a list of attributes that you believe identify who you are and what your priorities are. The list can be as long as you need. Once your list is complete, see whether you can narrow your values to five or six most important values. Finally, see whether you can choose the one value that is most important to you. We've added "Generating Ideas for Your Mission and Vision" to help jog your memory and brainstorm about what you do well and really like to do.

**Step 3: Identify Contributions.** Make a list of the ways you could make a difference. In an ideal situation, how could you contribute best to:

- the world in general
- your family
- your employer or future employers
- your friends
- your community

# Generating Ideas for Your Mission and Vision

A useful mission and vision statement should include two pieces: what you wish to accomplish and contribute and who you want to be, the character strengths and qualities you wish to develop. While this sounds simple, those pieces of information are not always obvious. Try these tools for generating valuable information about yourself.

## Part I

1. Describe your ideal day. This is not about being practical. It is designed to include as many sides of you and your enthusiasms as possible: creative, competent, artistic, introverted, extraverted, athletic, playful, nurturing, contemplative, and so on.
2. Imagine yourself 132 years old and surrounded by your descendants or those descendants of your friends. You are in a warm and relaxed atmosphere (such as around a fireplace). What would you say to them about what is important in life? This exercise is designed to access the values and principles that guide your life.



3. Imagine that it is your 70th birthday (or another milestone in your life). You have been asked by national print media to write a press release about your achievements. Consider what you would want your family, friends, coworkers in your profession and in your community to say about you. What difference would you like to have made in their lives? How do you want to be remembered? This is designed to inventory your actions and accomplishments in all areas of your life.

## Part II

Review your notes for these three exercises. With those responses in mind, reflect on questions 1, 2, and 3 above. Then write a rough draft (a page of any length) of your mission statement. Remember that it should describe what you want to do and who you want to be. This is not a job description. Carry it with you, post copies in visible places at home and work, and revise and evaluate. Be patient with yourself. The process is as important as the outcome. After a few weeks, write another draft. Ask yourself whether your statement was based on proven principles that you believe in, if you feel direction, motivation, and inspiration when you read it. Over time, reviewing and evaluating will keep you abreast of your own development.

Step 4: Identify Goals. Spend some time thinking about your priorities in life and the goals you have for yourself. Make a list of your personal goals, perhaps in the short term (up to three years) and the long term (beyond three years).

Step 5: Write Mission and Vision Statements. On the basis of the

first four steps and a better understanding of yourself, begin writing your personal mission and vision statements.

Final thoughts: A personal mission and vision statement is, of course, personal. But if you want to see whether you have been honest in developing your personal mission and vision statement, we suggest sharing the results of this process with one or more people who are close to you. Ask for their feedback. Finally, remember that mission and vision statements are not meant to be written once and blasted into stone. You should set aside some time annually to review your career, job, goals, and mission and vision statements—and make adjustments as necessary.

### *Key Takeaway*

In this section, you learned how to think of mission and vision in terms of your personal circumstances, whether it is your career or other aspects of your life. Just as you might do in developing an organization's vision statement, you were encouraged to think of a big, hairy audacious goal as a starting point. You also learned a five-step process for developing a personal vision statement.

### *Exercises*

1. How does a personal mission and vision statement differ from one created for an organization?
2. What time period should a personal mission and

vision statement cover?

3. What are the five steps for creating a personal mission and vision statement?
4. What type of goals should you start thinking about in creating a personal mission and vision?
5. How are your strengths and weaknesses relevant to mission and vision?
6. What stakeholders seem relevant to your personal mission and vision?

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Quint Careers, retrieved October 29, 2008, from [http://www.quintcareers.com/creating\\_personal\\_mission\\_statements.html](http://www.quintcareers.com/creating_personal_mission_statements.html). Reproduced and adapted with written permission from Randall S. Hansen. The content of this work is his, and any errors or omissions are our responsibility.



PART VIII

# CHAPTER 8: ORGANIZATIONAL STRUCTURE AND CHANGE

8.1 Organizational Structure and Change

8.2 Case in Point: Toyota Struggles With Organizational Structure

8.3 Organizational Structure

8.4 Contemporary Forms of Organizational Structures

8.5 Organizational Change

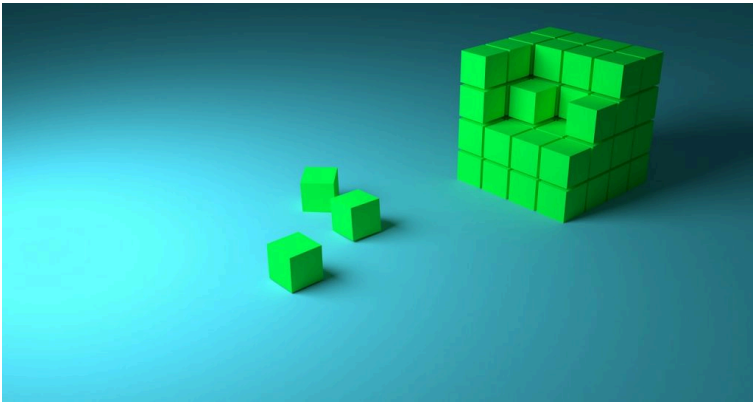
8.6 Planning and Executing Change Effectively

8.7 Building Your Change Management Skills



# 8.1 Organizational Structure and Change

Figure 8.1



The structures of organizations vary and influence the ease or challenge of organizational performance and change.

karanja - [Pixabay](#) - CC0 public domain.

*What's in It for Me?*

Reading this chapter will help you do the following:

- 1. Define organizational structure and its basic elements.
- 2. Describe matrix, boundaryless, and learning organizations.
- 3. Describe why and how organizations change.
- 4. Understand reasons why people resist change, and strategies for planning and executing change effectively.
- 5. Build your own organizational design skills.

Figure 8.2 The P-O-L-C Framework

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

Creating or enhancing the structure of an organization defines



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

## 8.2 Case in Point: Toyota Struggles With Organizational Structure

Figure 8.3



The Toad – [Labadie Toyota Building](#) – CC BY-NC 2.0.

Toyota Motor Corporation (TYO: 7203) has often been referred to as the gold standard of the automotive industry. In the first quarter of 2007, Toyota (NYSE: TM) overtook General Motors Corporation in sales for the first time as the top automotive manufacturer in the world. Toyota reached success in part because of its exceptional reputation for quality and customer care. Despite the global recession and the tough economic times that American auto companies such as General Motors and Chrysler faced in 2009, Toyota enjoyed profits of \$16.7 billion and sales growth of 6% that year. However, late 2009 and early 2010 witnessed Toyota's recall of 8 million vehicles due to unintended acceleration. How could this happen to a company known for quality and structured to solve problems as soon as they arise? To examine this further, one has to understand about the Toyota Production System (TPS).

TPS is built on the principles of “just-in-time” production. In other words, raw materials and supplies are delivered to the assembly line exactly at the time they are to be used. This system has little room for slack resources, emphasizes the importance of efficiency on the part of employees, and minimizes wasted resources. TPS gives power to the employees on the front lines. Assembly line workers are empowered to pull a cord and stop the manufacturing line when they see a problem.

However, during the 1990s, Toyota began to experience rapid growth and expansion. With this success, the organization became more defensive and protective of information. Expansion strained resources across the organization and slowed response time. Toyota's CEO, Akio Toyoda, the grandson of its founder, has conceded, “Quite

frankly, I fear the pace at which we have grown may have been too quick.”

Vehicle recalls are not new to Toyota; after defects were found in the company’s Lexus model in 1989, Toyota created teams to solve the issues quickly, and in some cases the company went to customers’ homes to collect the cars. The question on many people’s minds is, how could a company whose success was built on its reputation for quality have had such failures? What is all the more puzzling is that brake problems in vehicles became apparent in 2009, but only after being confronted by United States transportation secretary Ray LaHood did Toyota begin issuing recalls in the United States. And during the early months of the crisis, Toyota’s top leaders were all but missing from public sight.

The organizational structure of Toyota may give us some insight into the handling of this crisis and ideas for the most effective way for Toyota to move forward. A conflict such as this has the ability to paralyze productivity but if dealt with constructively and effectively, can present opportunities for learning and improvement. Companies such as Toyota that have a rigid corporate culture and a hierarchy of seniority are at risk of reacting to external threats slowly. It is not uncommon that individuals feel reluctant to pass bad news up the chain within a family company such as Toyota. Toyota’s board of directors is composed of 29 Japanese men, all of whom are Toyota insiders. As a result of its centralized power structure, authority is not generally delegated within the company; all U.S. executives are assigned a Japanese boss to mentor them, and no Toyota executive in the United States is

authorized to issue a recall. Most information flow is one-way, back to Japan where decisions are made.

Will Toyota turn its recall into an opportunity for increased participation for its international manufacturers? Will decentralization and increased transparency occur? Only time will tell.

Case written based on information from Accelerating into trouble. (2010, February 11). *Economist*. Retrieved March 8, 2010, from [http://www.economist.com/opinion/displaystory.cfm?story\\_id=15498249](http://www.economist.com/opinion/displaystory.cfm?story_id=15498249); Dickson, D. (2010, February 10). Toyota's bumps began with race for growth. *Washington Times*, p. 1; Maynard, M., Tabuchi, H., Bradsher, K., & Parris, M. (2010, February 7). Toyota has pattern of slow response on safety issues. *New York Times*, p. 1; Simon, B. (2010, February 24). LaHood voices concerns over Toyota culture. *Financial Times*. Retrieved March 10, 2010, from <http://www.ft.com/cms/s/0/11708d7c-20d7-11df-b920-00144feab49a.html>; Werhane, P., & Moriarty, B. (2009). Moral imagination and management decision making. *Business Roundtable Institute for Corporate Ethics*. Retrieved April 30, 2010, from [http://www.corporate-ethics.org/pdf/moral\\_imagination.pdf](http://www.corporate-ethics.org/pdf/moral_imagination.pdf); Atلمان, A. (2010, February 24). Congress puts Toyota (and Toyoda) in the hot seat. *Time*. Retrieved March 11, 2010, from <http://www.time.com/time/nation/article/0,8599,1967654,00.html>.

## *Discussion Questions*

1. What changes in the organizing facet of the P-O-L-C framework might you make at Toyota to prevent future mishaps like the massive recalls related to brake and accelerator failures?
2. Do you think Toyota's organizational structure and norms are explicitly formalized in rules, or do the norms seem to be more inherent in the culture of the organization?
3. What are the pros and cons of Toyota's structure?
4. What elements of business would you suggest remain the same and what elements might need revising?
5. What are the most important elements of Toyota's organizational structure?

## 8.3 Organizational Structure

### *Learning Objectives*

1. Explain the roles of formalization, centralization, levels in the hierarchy, and departmentalization in employee attitudes and behaviors.
2. Describe how the elements of organizational structure can be combined to create mechanistic and organic structures.
3. Understand the advantages and disadvantages of mechanistic and organic structures for organizations.

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

# Building Blocks of Structure

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

## Centralization

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

As an employee, where would you feel more comfortable and productive? If your answer is “decentralized,” you are not alone. Decentralized companies give more authority to lower-level employees, resulting in a sense of empowerment. Decisions can be made more quickly, and employees often believe that decentralized



companies provide greater levels of procedural fairness to employees. Job candidates are more likely to be attracted to decentralized organizations. Because centralized organizations assign decision-making responsibility to higher-level managers, they place greater demands on the judgment capabilities of CEOs and other high-level managers.

Many companies find that the centralization of operations leads to inefficiencies in decision making. For example, in the 1980s, the industrial equipment manufacturer Caterpillar suffered the consequences of centralized decision making. At the time, all pricing decisions were made in the corporate headquarters in Peoria, Illinois. This meant that when a sales representative working in Africa wanted to give a discount on a product, they needed to check with headquarters. Headquarters did not always have accurate or timely information about the subsidiary markets to make an effective decision. As a result, Caterpillar was at a disadvantage against competitors such as the Japanese firm Komatsu. Seeking to overcome this centralization paralysis, Caterpillar underwent several dramatic rounds of reorganization in the 1990s and 2000s (Nelson & Pasternack, 2005).

## Figure 8.4



Changing their decision-making approach to a more decentralized style has helped Caterpillar compete at the global level.

Aconcagua – [Bauma 2007 Bulldozer Caterpillar 2](#) CC BY-SA 3.0.

However, centralization also has its advantages. Some employees are more comfortable in an organization where their manager confidently gives instructions and makes decisions. Centralization may also lead to more efficient operations, particularly if the company is operating in a stable environment (Ambrose & Cropanzano, 2000; Miller, et. al., 1988; Oldham & Hackman, 1981; Pierce & Delbecq, 1977; Schminke, et. al., 2000; Turban & Keon, 1993; Wally & Baum, 1994).

In fact, organizations can suffer from extreme decentralization. For example, some analysts believe that the Federal Bureau of Investigation (FBI) experiences some problems because all its

structure and systems are based on the assumption that crime needs to be investigated *after* it happens. Over time, this assumption led to a situation where, instead of following an overarching strategy, each FBI unit is completely decentralized and field agents determine how investigations should be pursued. It has been argued that due to the change in the nature of crimes, the FBI needs to gather accurate intelligence *before* a crime is committed; this requires more centralized decision making and strategy development (Brazil, 2007).

Hitting the right balance between decentralization and centralization is a challenge for many organizations. At the Home Depot, the retail giant with over 2,000 stores across the United States, Canada, Mexico, and China, one of the major changes instituted by former CEO Bob Nardelli was to centralize most of its operations. Before Nardelli's arrival in 2000, Home Depot store managers made a number of decisions autonomously and each store had an entrepreneurial culture. Nardelli's changes initially saved the company a lot of money. For example, for a company of that size, centralizing purchasing operations led to big cost savings because the company could negotiate important discounts from suppliers. At the same time, many analysts think that the centralization went too far, leading to the loss of the service-oriented culture at the stores. Nardelli was ousted after seven years (Charan, 2006; Marquez, 2007).

## Formalization

Formalization is the extent to which an organization's policies,

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

While formalization reduces ambiguity and provides direction to employees, it is not without disadvantages. A high degree of formalization may actually lead to reduced innovativeness because employees are used to behaving in a certain manner. In fact, strategic decision making in such organizations often occurs only when there is a crisis. A formalized structure is associated with reduced motivation and job satisfaction as well as a slower pace of decision making (Frederickson, 1986; Oldham & Hackman, 1981; Pierce & Delbecq, 1977; Wally & Baum, 1994). The service industry is particularly susceptible to problems associated with high levels of formalization. Sometimes employees who are listening to a customer's problems may need to take action, but the answer may not be specified in any procedural guidelines or rulebook. For example, while a handful of airlines such as Southwest do a good job of empowering their employees to handle complaints, in many airlines, lower-level employees have limited power to resolve a customer problem and are constrained by stringent rules that outline a limited number of acceptable responses.

# Hierarchical Levels

Another important element of a company's structure is the number of levels it has in its hierarchy. Keeping the size of the organization constant, tall structures have several layers of management between frontline employees and the top level, while flat structures consist of only a few layers. In tall structures, the number of employees reporting to each manager tends to be smaller, resulting in greater opportunities for managers to supervise and monitor employee activities. In contrast, flat structures involve a larger number of employees reporting to each manager. In such a structure, managers will be relatively unable to provide close supervision, leading to greater levels of freedom of action for each employee.

Research indicates that flat organizations provide greater need satisfaction for employees and greater levels of self-actualization (Ghiselli & Johnson, 1970; Porter & Siegel, 2006). At the same time, there may be some challenges associated with flat structures. Research shows that when managers supervise a large number of employees, which is more likely to happen in flat structures, employees experience greater levels of role ambiguity—the confusion that results from being unsure of what is expected of a worker on the job (Chonko, 1982). This is especially a disadvantage for employees who need closer guidance from their managers. Moreover, in a flat structure, advancement opportunities will be more limited because there are fewer management layers. Finally, while employees report that flat structures are better at satisfying their higher-order needs such as self-actualization, they also report that tall structures are better at satisfying security needs of employees (Porter & Lawler, 1964). Because tall structures are typical of large and well-established companies, it is possible that when working in such organizations employees feel a greater sense of job security.

Figure 8.5



Companies such as IKEA, the Swedish furniture manufacturer and retailer, are successfully using flat structures within stores to build an employee attitude of job involvement and ownership.

Ikea almhult - [Wikimedia Commons](#) - CC BY-SA 3.0.

# Departmentalization

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

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

In organizations using divisional structures, departments represent the unique products, services, customers, or geographic locations the company is serving. Thus each unique product or service the company is producing will have its own department. Within each department, functions such as marketing, manufacturing, and other roles are replicated. In these structures, employees act like generalists as opposed to specialists. Instead of performing specialized tasks, employees will be in charge of performing many different tasks in the service of the product. For example, a marketing employee in a company with a divisional structure may be in charge of planning promotions, coordinating relations with advertising agencies, and planning and conducting marketing research, all for the particular product line handled by his or her division.

In reality, many organizations are structured according to a mixture of functional and divisional forms. For example, if the company has multiple product lines, departmentalizing by product may increase innovativeness and reduce response times. Each of these departments may have dedicated marketing, manufacturing, and customer service employees serving the specific product; yet, the company may also find that centralizing some operations and

retaining the functional structure makes sense and is more cost effective for roles such as human resources management and information technology. The same organization may also create geographic departments if it is serving different countries.

Each type of departmentalization has its advantages. Functional structures tend to be effective when an organization does not have a large number of products and services requiring special attention. When a company has a diverse product line, each product will have unique demands, deeming divisional (or product-specific) structures more useful for promptly addressing customer demands and anticipating market changes. Functional structures are more effective in stable environments that are slower to change. In contrast, organizations using product divisions are more agile and can perform better in turbulent environments. The type of employee who will succeed under each structure is also different. Research shows that when employees work in product divisions in turbulent environments, because activities are diverse and complex, their performance depends on their general mental abilities (Hollenbeck, et. al., 2002).

## Figure 8.6 An Example of a Pharmaceutical Company with a Functional Departmentalization Structure



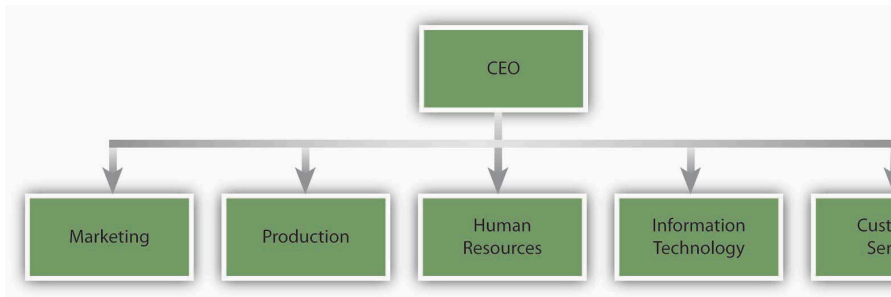
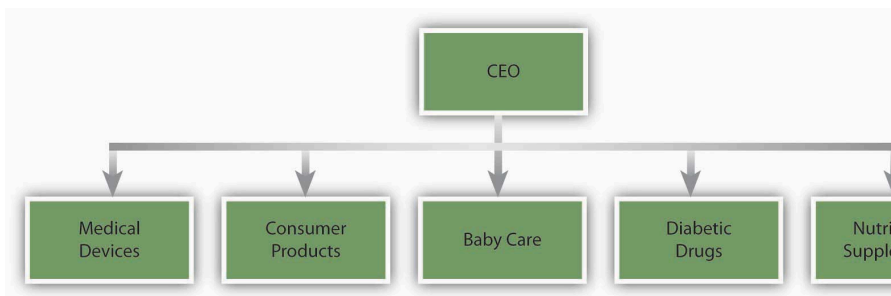


Figure 8.7 An Example of a Pharmaceutical Company with a Divisional Departmentalization Structure



# Two Configurations: Mechanistic and Organic Structures

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

Mechanistic structures are those that resemble a bureaucracy. These structures are highly formalized and centralized. Communication tends to follow formal channels and employees are given specific job descriptions delineating their roles and responsibilities. Mechanistic organizations are often rigid and resist change, making them unsuitable for innovativeness and taking quick action. These forms have the downside of inhibiting entrepreneurial action and discouraging the use of individual initiative on the part of employees. Not only do mechanistic structures have disadvantages for innovativeness, but they also limit individual autonomy and self-determination, which will likely lead to lower levels of intrinsic motivation on the job (Burns & Stalker, 1961; Covin & Slevin, 1988; Schollhammer, 1982; Sherman & Smith, 1984; Slevin & Covin, 1990).

Despite these downsides, however, mechanistic structures have advantages when the environment is more stable. The main advantage of a mechanistic structure is its efficiency. Therefore, in organizations that are trying to maximize efficiency and minimize costs, mechanistic structures provide advantages. For example, McDonald's has a famously bureaucratic structure where employee jobs are highly formalized, with clear lines of communication and specific job descriptions. This structure is an advantage for them

because it allows McDonald's to produce a uniform product around the world at minimum cost. Mechanistic structures can also be advantageous when a company is new. New businesses often suffer from a lack of structure, role ambiguity, and uncertainty. The presence of a mechanistic structure has been shown to be related to firm performance in new ventures (Sine & Kirsch, 2006).

In contrast to mechanistic structures, organic structures are flexible and decentralized, with low levels of formalization. In Organizations with an organic structure, communication lines are more fluid and flexible. Employee job descriptions are broader and employees are asked to perform duties based on the specific needs of the organization at the time as well as their own expertise levels. Organic structures tend to be related to higher levels of job satisfaction on the part of employees. These structures are conducive to entrepreneurial behavior and innovativeness (Burns & Stalker, 1961; Covin & Slevin, 1988). An example of a company that has an organic structure is the diversified technology company 3M. The company is strongly committed to decentralization. At 3M, there are close to 100 profit centers, with each division feeling like a small company. Each division manager acts autonomously and is accountable for his or her actions. As operations within each division get too big and a product created by a division becomes profitable, the operation is spun off to create a separate business unit. This is done to protect the agility of the company and the small-company atmosphere.

### *Key Takeaway*

The degree to which a company is centralized and formalized, the number of levels in the company hierarchy, and the type of departmentalization the company uses are

key elements of a company's structure. These elements of structure affect the degree to which the company is effective and innovative as well as employee attitudes and behaviors at work. These elements come together to create mechanistic and organic structures. Mechanistic structures are rigid and bureaucratic and help companies achieve efficiency, while organic structures are decentralized, flexible, and aid companies in achieving innovativeness.

## *Exercises*

1. What are the advantages and disadvantages of decentralization?
2. All else being equal, would you prefer to work in a tall or flat organization? Why?
3. What are the advantages and disadvantages of departmentalization by product?

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## 8.4 Contemporary Forms of Organizational Structures

### *Learning Objectives*

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

For centuries, technological advancements that affected business came in slow waves. Over 100 years passed between the invention of the first reliable steam engine and the first practical internal combustion engine. During these early days of advancement, communication would often go hand in hand with transportation. Instead of delivering mail hundreds of miles by horse, messages could be transported more quickly by train and then later by plane. Beginning in the 1900s, the tides of change began to rise much more quickly. From the telegraph to the telephone to the computer to the Internet, each advancement brought about a need for an organization's structure to adapt and change.

Business has become global, moving into new economies and cultures. Previously nonexistent industries, such as those related to high technology, have demanded flexibility by organizations in ways never before seen. The diverse and complex nature of the current business environment has led to the emergence of several types

of organizational structures. Beginning in the 1970s, management experts began to propose organizational designs that they believed were better adapted to the needs of the emerging business environment. Each structure has unique qualities to help businesses handle their particular environment.

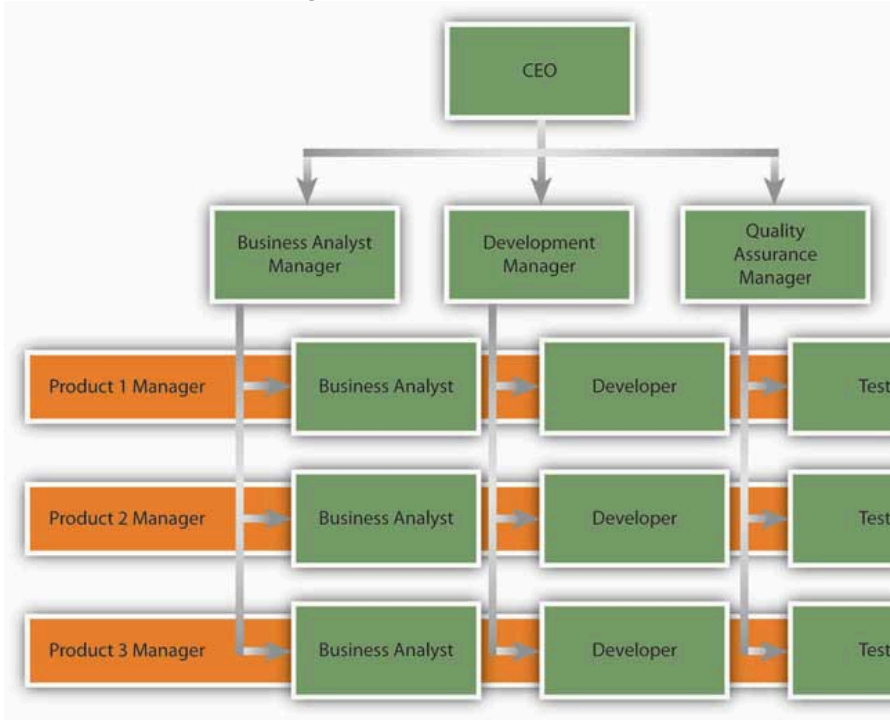
## Matrix Organizations

Matrix organizations have a design that combines a traditional functional structure with a product structure. Instead of completely switching from a product-based structure, a company may use a matrix structure to balance the benefits of product-based and traditional functional structures. Specifically, employees reporting to department managers are also pooled together to form project or product teams. As a result, each person reports to a department manager as well as a project or product manager. In a matrix structure, product managers have control and say over product-related matters, while department managers have authority over matters related to company policy. Matrix structures are created in response to uncertainty and dynamism of the environment and the need to give particular attention to specific products or projects. Using the matrix structure as opposed to product departments may increase communication and cooperation among departments because project managers will need to coordinate their actions with those of department managers. In fact, research shows that matrix structure increases the frequency of informal and formal communication within the organization (Joyce, W. F., 1986). Matrix structures also have the benefit of providing quick responses to



technical problems and customer demands. The existence of a project manager keeps the focus on the product or service provided.

Figure 8.8



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

Despite these potential benefits, matrix structures are not without costs. In a matrix, each employee reports to two or more managers. This situation is ripe for conflict. Because multiple managers are in charge of guiding the behaviors of each employee, there may be power struggles or turf wars among managers. As managers are more interdependent compared to a traditional or product-based structure, they will need to spend more effort coordinating their work. From the employee's perspective, there is potential for interpersonal conflict with team members as well as with leaders. The presence of multiple leaders may create role ambiguity or, worse, role conflict—being given instructions or objectives that cannot all be met because they are mutually exclusive. The necessity to work with a team consisting of employees with different functional backgrounds increases the potential for task conflict at work (Ford, R. C. and Randolph, W. A., 1992). Solving these problems requires a great level of patience and proactivity on the part of the employee.

The matrix structure is used in many information technology companies engaged in software development. Sportswear manufacturer Nike is another company that uses the matrix organization successfully. New product introduction is a task shared by regional managers and product managers. While product managers are in charge of deciding how to launch a product, regional managers are allowed to make modifications based on the region (Anand, N. and Daft, R. L., 2007).

# Boundaryless Organizations

Boundaryless organization is a term coined by Jack Welch during his tenure as CEO of GE; it refers to an organization that eliminates traditional barriers between departments as well as barriers between the organization and the external environment (Ashkenas, R., et. al., 1995). Many different types of boundaryless organizations exist. One form is the modular organization, in which all nonessential functions are outsourced. The idea behind this format is to retain only the value-generating and strategic functions in-house, while the rest of the operations are outsourced to many suppliers. An example of a company that does this is Toyota. By managing relationships with hundreds of suppliers, Toyota achieves efficiency and quality in its operations. Strategic alliances constitute another form of boundaryless design. In this form, similar to a joint venture, two or more companies find an area of collaboration and combine their efforts to create a partnership that is beneficial for both parties. In the process, the traditional boundaries between two competitors may be broken. As an example, Starbucks formed a highly successful partnership with PepsiCo to market its Frappuccino cold drinks. Starbucks has immediate brand-name recognition in this cold coffee drink, but its desire to capture shelf space in supermarkets required marketing savvy and experience that Starbucks did not possess at the time. By partnering with PepsiCo, Starbucks gained an important head start in the marketing and distribution of this product. Finally, boundaryless organizations may involve eliminating the barriers separating employees; these may be intangible barriers, such as traditional management layers, or actual physical barriers, such as walls between different departments. Structures such as self-managing teams create an environment where employees coordinate their efforts and change their own roles to suit the

demands of the situation, as opposed to insisting that something is “not my job” (Dess, G. G., et. al., 1995; Rosenbloom, B., 2003).

# Learning Organizations

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

In learning organizations, experimentation and testing potentially better operational methods are encouraged. This is true not only in response to environmental threats but also as a way of identifying future opportunities. 3M is one company that institutionalized experimenting with new ideas in the form of allowing each engineer to spend one day a week working on a personal project. At IBM, learning is encouraged by taking highly successful business managers and putting them in charge of emerging business opportunities (EBOs). IBM is a company that has no difficulty coming up with new ideas, as evidenced by the number of patents it holds. Yet commercializing these ideas has been a problem in the past because of an emphasis on short-term results. To change this situation, the company began experimenting with the idea of EBOs. By setting up a structure where failure is tolerated and risk taking is encouraged, the company took a big step toward becoming a learning organization (Deutschman, A., 2005).

Learning organizations are also good at learning from

experience—their own or a competitor's. To learn from past mistakes, companies conduct a thorough analysis of them. Some companies choose to conduct formal retrospective meetings to analyze the challenges encountered and areas for improvement. To learn from others, these companies vigorously study competitors, market leaders in different industries, clients, and customers. By benchmarking against industry best practices, they constantly look for ways of improving their own operations. Learning organizations are also good at studying customer habits to generate ideas. For example, Xerox uses anthropologists to understand and gain insights to how customers are actually using their office products (Garvin, D. A., 1993). By using these techniques, learning organizations facilitate innovation and make it easier to achieve organizational change.

### *Key Takeaway*

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

## Exercises

1. Have you ever reported to more than one manager? What were the challenges of such a situation? As a manager, what could you do to help your subordinates who have other bosses besides yourself?
2. What do you think are the advantages and disadvantages of being employed by a boundaryless organization?
3. What can organizations do to institutionalize organizational learning? What practices and policies would aid in knowledge acquisition and retention?

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## 8.5 Organizational Change

### *Learning Objectives*

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

## Why Do Organizations Change?

Organizational change is the movement of an organization from one state of affairs to another. A change in the environment often requires change within the organization operating within that environment. Change in almost any aspect of a company's operation can be met with resistance, and different cultures can have different reactions to both the change and the means to promote the change. To better facilitate necessary changes, several steps can be taken that have been proved to lower the anxiety of employees and ease



the transformation process. Often, the simple act of including employees in the change process can drastically reduce opposition to new methods. In some organizations, this level of inclusion is not possible, and instead organizations can recruit a small number of opinion leaders to promote the benefits of coming changes.

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

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

# Workplace Demographics

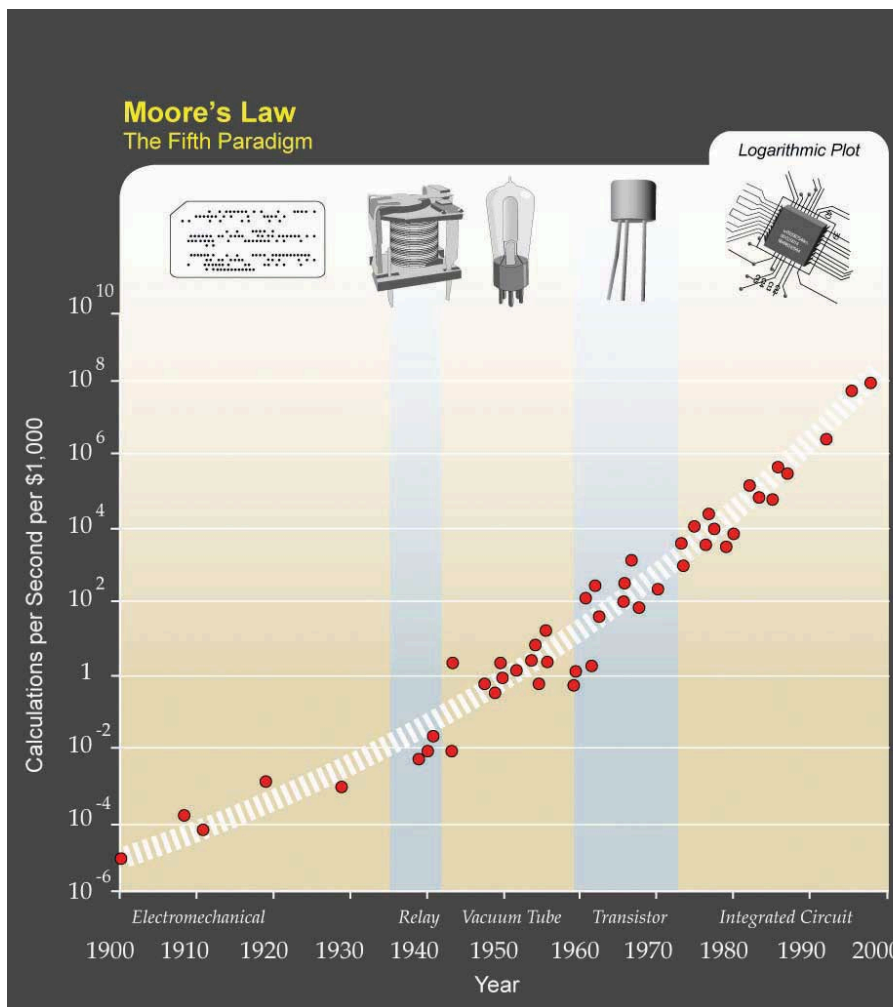
Organizational change is often a response to changes to the environment. For example, agencies that monitor workplace demographics such as the U.S. Department of Labor and the Organization for Economic Co-operation and Development have reported that the average age of the U.S. workforce will increase as the baby boom generation nears retirement age and the numbers of younger workers are insufficient to fill the gap (Lerman, R. I. and Schmidt, S. R., 2006). What does this mean for companies? Organizations may realize that as the workforce gets older, the types of benefits workers prefer may change. Work arrangements such as flexible work hours and job sharing may become more popular as employees remain in the workforce even after retirement. It is also possible that employees who are unhappy with their current work situation will choose to retire, resulting in a sudden loss of valuable knowledge and expertise in organizations. Therefore, organizations will have to devise strategies to retain these employees and plan for their retirement. Finally, a critical issue is finding ways of dealing with age-related stereotypes which act as barriers in the retention of these employees.

## Technology

Sometimes change is motivated by rapid developments in

technology. Moore's law (a prediction by Gordon Moore, cofounder of Intel) dictates that the overall complexity of computers will double every 18 months with no increase in cost (Anonymous, 2008). Such change is motivating corporations to change their technology rapidly. Sometimes technology produces such profound developments that companies struggle to adapt. A recent example is from the music industry. When music CDs were first introduced in the 1980s, they were substantially more appealing than the traditional LP vinyl records. Record companies were easily able to double the prices, even though producing CDs cost a fraction of what it cost to produce LPs. For decades, record-producing companies benefited from this status quo. Yet when peer-to-peer file sharing through software such as Napster and Kazaa threatened the core of their business, companies in the music industry found themselves completely unprepared for such disruptive technological changes. Their first response was to sue the users of file-sharing software, sometimes even underage kids. They also kept looking for a technology that would make it impossible to copy a CD or DVD, which has yet to emerge. Until Apple's iTunes came up with a new way to sell music online, it was doubtful that consumers would ever be willing to pay for music that was otherwise available for free (albeit illegally so). Only time will tell if the industry will be able to adapt to the changes forced on it (Lasica, J. D., 2005).

## Figure 8.9



Kurzweil expanded Moore's law from integrated circuits to earlier transistors, vacuum tubes, relays, and electromechanical computers to show that his trend holds there as well.

Wikimedia Commons – [Moore's Law, The Fifth Paradigm](#) – public domain.

# Globalization

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

# Changes in the Market Conditions

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

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

# Growth

Figure 8.10



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

M.O. Stevens – [Widmer Brewing Company headquarters](#) – CC BY-SA 3.0.

It is natural for once small start-up companies to grow if they are successful. An example of this growth is the evolution of the Widmer Brothers Brewing Company, which started as two brothers brewing beer in their garage to becoming the 11th largest brewery in the United States. This growth happened over time as the popularity of their key product—Hefeweizen—grew in popularity and the company had to expand to meet demand growing from the two founders to the 11th largest brewery in the United States by 2008. In 2007, Widmer Brothers merged with Redhook Ale Brewery. Anheuser-Busch continues to have a minority stake in both beer companies. So, while 50% of all new small businesses fail in their first year (Get ready, 2008), those that succeed often evolve into large, complex organizations over time.

## Poor Performance

Change can also occur if the company is performing poorly and if there is a perceived threat from the environment. In fact, poorly performing companies often find it easier to change compared with successful companies. Why? High performance actually leads to overconfidence and inertia. As a result, successful companies often keep doing what made them successful in the first place. When it comes to the relationship between company performance and organizational change, the saying “nothing fails like success” may be fitting. For example, Polaroid was the number one producer of instant films and cameras in 1994. Less than a decade later, the company filed for bankruptcy, unable to adapt to the rapid advances in one-hour photo development and digital photography

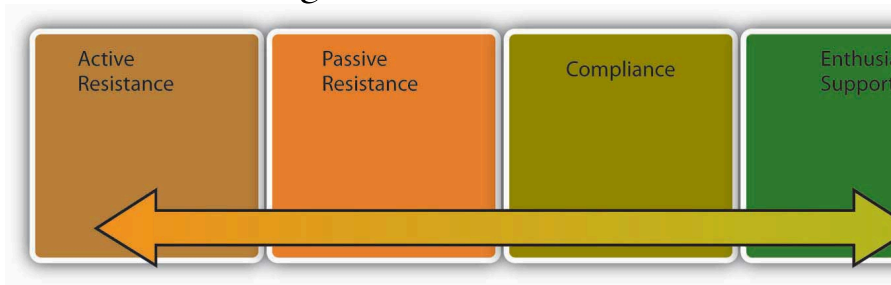


technologies that were sweeping the market. Successful companies that manage to change have special practices in place to keep the organization open to changes. For example, Finnish cell phone maker Nokia finds that it is important to periodically change the perspective of key decision makers. For this purpose, they rotate heads of businesses to different posts to give them a fresh perspective. In addition to the success of a business, change in a company's upper-level management is a motivator for change at the organization level. Research shows that long-tenured CEOs are unlikely to change their formula for success. Instead, new CEOs and new top management teams create change in a company's culture and structure (Barnett, W. P. and Carroll, G. R., 1995; Boeker, W., 1997; Deutschman, A., 2005).

## Resistance to Change

Changing an organization is often essential for a company to remain competitive. Failure to change may influence the ability of a company to survive. Yet employees do not always welcome changes in methods. According to a 2007 survey conducted by the Society for Human Resource Management (SHRM), employee resistance to change is one of the top reasons change efforts fail. In fact, reactions to organizational change may range from resistance to compliance to enthusiastic support of the change, with the latter being the exception rather than the norm (Anonymous, 2007; Huy, Q. N., 1999).

Figure 8.11



Reactions to change may take many forms.

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

To be successful, any change attempt will need to overcome resistance on the part of employees. Otherwise, the result will be loss of time and energy as well as an inability on the part of the organization to adapt to the changes in the environment and make its operations more efficient. Resistance to change also has negative consequences for the people in question. Research shows that when people react negatively to organizational change, they experience negative emotions, use sick time more often, and are more likely to voluntarily leave the company (Fugate, M., Kinicki, A. J., and Prussia, G. E., 2008). These negative effects can be present even when the proposed change clearly offers benefits and advantages over the status quo.

The following is a dramatic example of how resistance to change may prevent improving the status quo. Have you ever wondered why the keyboards we use are shaped the way they are? The QWERTY keyboard, named after the first six letters in the top row, was actually engineered to slow us down. When the typewriter was first invented in the 19th century, the first prototypes of the keyboard would jam if the keys right next to each other were hit at the same time. Therefore, it was important for manufacturers to slow typists down. They achieved this by putting the most commonly used letters to the left-hand side and scattering the most frequently used letters all over the keyboard. Later, the issue of letters being stuck was resolved. In fact, an alternative to the QWERTY developed in the 1930s by educational psychologist August Dvorak provides a much more efficient design and allows individuals to double traditional typing speeds. Yet the Dvorak keyboard never gained wide acceptance. The reasons? Large numbers of people resisted the change. Teachers and typists resisted because they would lose their specialized knowledge. Manufacturers resisted due to costs inherent in making the switch and the initial inefficiencies in the learning curve (Diamond, J., 2005). In short, the best idea does not necessarily win, and changing people requires understanding why they resist.

## Figure 8.12



Dvorak keyboard is a more efficient alternative to keyboard design. However, due to resistance from typists, teachers, manufacturers, and salespeople, a switch never occurred.

John Blackbourne – [Sony laptop with Dvorak keyboard layout](#) – CC BY-NC 2.0.

# Why Do People Resist Change?

## Disrupted Habits

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

# Personality

Some people are more resistant to change than others. Recall that one of the Big Five personality traits is Openness to Experience; obviously, people who rank high on this trait will tend to accept change readily. Research also shows that people who have a positive self-concept are better at coping with change, probably because those who have high self-esteem may feel that whatever the changes are, they are likely to adjust to it well and be successful in the new system. People with a more positive self-concept and those who are more optimistic may also view change as an opportunity to shine as opposed to a threat that is overwhelming. Finally, risk tolerance is another predictor of how resistant someone will be to stress. For people who are risk avoidant, the possibility of a change in technology or structure may be more threatening (Judge, T. A., et. al., 2000; Wanberg, C. R., and Banas, J. T., 2000).

## Feelings of Uncertainty

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

is unclear is enough to create stress for people because it leads to a sense of lost control (Ashford, S. J., Lee, C. L., and Bobko, P., 1989; Fugate, M., Kinicki, A. J., and Prussia, G. E., 2008).

## Fear of Failure

Figure 8.13



One reason employees resist change is the fear of failure under the new system.

Intel Free Press – [Lindsay van Driel and Anakha Coman Awake at Intel organizers](#) – CC BY-SA 2.0.

People also resist change when they feel that their performance may be affected under the new system. People who are experts in their jobs may be less than welcoming of the changes because they may be unsure whether their success would last under the new system. Studies show that people who feel that they can perform well under the new system are more likely to be committed to the proposed change, while those who have lower confidence in their ability to perform after changes are less committed (Herold, D. M., Fedor, D. B., and Caldwell, S., 2007).



# Personal Impact of Change

It would be too simplistic to argue that people resist all change, regardless of its form. In fact, people tend to be more welcoming of change that is favorable to them on a personal level (such as giving them more power over others or change that improves quality of life such as bigger and nicer offices). Research also shows that commitment to change is highest when proposed changes affect the work unit with a low impact on how individual jobs are performed (Fedor, D. M., Caldwell, S., and Herold, D. M., 2006).

## Prevalence of Change

Any change effort should be considered within the context of all the other changes that are introduced in a company. Does the company have a history of making short-lived changes? If the company structure went from functional to product-based to geographic to matrix within the past five years and the top management is in the process of going back to a functional structure again, a certain level of resistance is to be expected because employees are likely to be fatigued as a result of the constant changes. Moreover, the lack of a history of successful changes may cause people to feel skeptical toward the newly planned changes. Therefore, considering the history of changes in the company is important to understanding why people resist. Another question is, how big is

the planned change? If the company is considering a simple switch to a new computer program, such as introducing Microsoft Access for database management, the change may not be as extensive or stressful compared with a switch to an enterprise resource planning (ERP) system such as SAP or PeopleSoft, which require a significant time commitment and can fundamentally affect how business is conducted (Labianca, G., Gray, B., and Brass, D. J., 2000; Rafferty, A. E., and Griffin, M. A., 2006).

## Perceived Loss of Power

One other reason people may resist change is that change may affect their power and influence in the organization. Imagine that your company moved to a more team-based structure, turning supervisors into team leaders. In the old structure, supervisors were in charge of hiring and firing all those reporting to them. Under the new system, this power is given to the team. Instead of monitoring the progress the team is making toward goals, the job of a team leader is to provide support and mentoring to the team in general and ensure that the team has access to all resources to be effective. Given the loss in prestige and status in the new structure, some supervisors may resist the proposed changes even if it is better for the organization to operate around teams.

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

# Is All Resistance Bad?

Resistance to change may be a positive force in some instances. In fact, resistance to change is a valuable feedback tool that should not be ignored. Why are people resisting the proposed changes? Do they believe that the new system will not work? If so, why not? By listening to people and incorporating their suggestions into the change effort, it is possible to make a more effective change. Some of a company's most committed employees may be the most vocal opponents of a change effort. They may fear that the organization they feel such a strong attachment to is being threatened by the planned change effort and the change will ultimately hurt the company. In contrast, people who have less loyalty to the organization may comply with the proposed changes simply because they do not care enough about the fate of the company to oppose the changes. As a result, when dealing with those who resist change, it is important to avoid blaming them for a lack of loyalty (Ford, J. D., Ford, L. W., and D'Amelio, A., 2008).

## *Key Takeaway*

Organizations change in response to changes in the environment and in response to the way decision makers interpret these changes. When it comes to organizational change, one of the biggest obstacles is resistance to change. People resist change because change disrupts habits, conflicts with certain personality types, causes a fear of failure, can have potentially negative effects, can

result in a potential for loss of power, and, when done too frequently, can exhaust employees.

## *Exercises*

1. Can you think of an organizational or personal change that you had to go through? Have you encountered any resistance to this change? What were the reasons?
2. How would you deal with employees who are resisting change because their habits are threatened? How would you deal with them if they are resisting because of a fear of failure?

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## 8.6 Planning and Executing Change Effectively

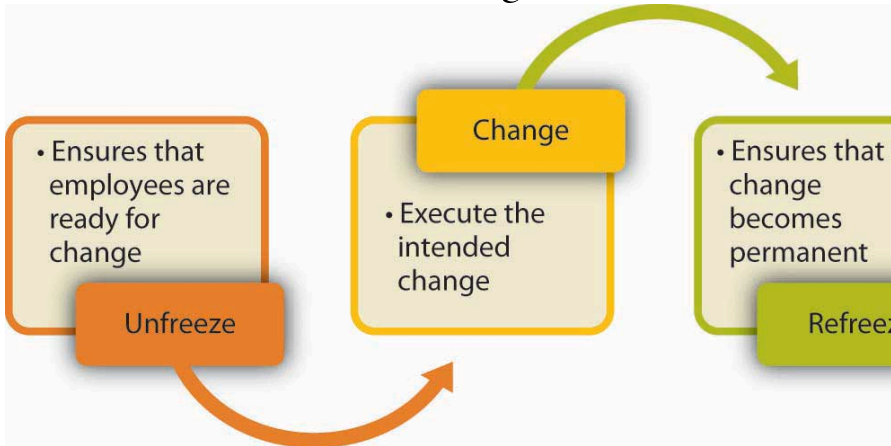
### *Learning Objectives*

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

How do you plan, organize, and execute change effectively? Some types of change, such as mergers, often come with job losses. In these situations, it is important to remain fair and ethical while laying off otherwise exceptional employees. Once change has occurred, it is vital to take any steps necessary to reinforce the new system. Employees can often require continued support well after an organizational change.

One of the most useful frameworks in this area is the three-stage model of planned change developed in the 1950s by psychologist Kurt Lewin (Lewin, 1951). This model assumes that change will encounter resistance. Therefore, executing change without prior preparation is likely to lead to failure. Instead, organizations should start with unfreezing, or making sure that organizational members are ready for and receptive to change. This is followed by change, or executing the planned changes. Finally, refreezing involves ensuring that change becomes permanent and the new habits, rules, or procedures become the norm.

Figure 8.14 Lewin's Three-Stage Process of Change



## Unfreezing Before Change

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



# Communicating a Plan for Change

Do people know what the change entails, or are they hearing about the planned changes through the grapevine or office gossip? When employees know what is going to happen, when, and why, they may feel more comfortable. Research shows that those who have more complete information about upcoming changes are more committed to a change effort (Wanberg & Banas, 2000). Moreover, in successful change efforts, the leader not only communicates a plan but also an overall vision for the change (Herold, et. al., 2008). When this vision is exciting and paints a picture of a future that employees would be proud to be a part of, people are likely to be more committed to change.

Ensuring that top management communicates with employees about the upcoming changes also has symbolic value (Armenakis, et. al., 1993). When top management and the company CEO discuss the importance of the changes in meetings, employees are provided with a reason to trust that this change is a strategic initiative. For example, while changing the employee performance appraisal system, the CEO of Kimberly Clark made sure to mention the new system in all meetings with employees, indicating that the change was supported by the CEO.

# Develop a Sense of Urgency

People are more likely to accept change if they feel that there is a need for it. If employees feel their company is doing well, the perceived need for change will be smaller. Those who plan the change will need to make the case that there is an external or internal threat to the organization's competitiveness, reputation, or sometimes even its survival and that failure to act will have undesirable consequences. For example, Lou Gerstner, the former CEO of IBM, executed a successful transformation of the company in the early 1990s. In his biography *Elephants Can Dance*, Gerstner highlights how he achieved cooperation as follows: "Our greatest ally in shaking loose the past was IBM's eminent collapse. Rather than go with the usual impulse to put on a happy face, I decided to keep the crisis front and center. I didn't want to lose the sense of urgency (Gerstner, 2002; Kotter, 1996)."

## Building a Coalition

To convince people that change is needed, the change leader does not necessarily have to convince every person individually. In fact, people's opinions toward change are affected by opinion leaders or those people who have a strong influence over the behaviors and attitudes of others (Burkhardt, 1994; Kotter, 1995). Instead of trying to get everyone on board at the same time, it may be more

useful to convince and prepare the opinion leaders. Understanding one's own social networks as well as the networks of others in the organization can help managers identify opinion leaders. Once these individuals agree that the proposed change is needed and will be useful, they will become helpful allies in ensuring that the rest of the organization is ready for change (Armenakis, et. al., 1993). For example, when Paul Pressler became the CEO of Gap Inc. in 2002, he initiated a culture change effort in the hope of creating a sense of identity among the company's many brands such as Banana Republic, Old Navy, and Gap. For this purpose, employees were segmented instead of trying to reach out to all employees at the same time. Gap Inc. started by training the 2,000 senior managers in "leadership summits," who in turn were instrumental in ensuring the cooperation of the remaining 150,000 employees of the company (Nash, 2005).

## Provide Support

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

# Allow Employees to Participate

Studies show that employees who participate in planning change efforts tend to have more positive opinions about the change. Why? They will have the opportunity to voice their concerns. They can shape the change effort so that their concerns are addressed. They will be more knowledgeable about the reasons for change, alternatives to the proposed changes, and why the chosen alternative was better than the others. Finally, they will feel a sense of ownership of the planned change and are more likely to be on board (Wanberg & Banas, 2000). Participation may be more useful if it starts at earlier stages, preferably while the problem is still being diagnosed. For example, assume that a company suspects there are problems with manufacturing quality. One way of convincing employees that there is a problem that needs to be solved would be to ask them to take customer calls about the product quality. Once employees experience the problem firsthand, they will be more motivated to solve the problem.

## Executing Change

The second stage of Lewin's three-stage change model is executing change. At this stage, the organization implements the planned

changes on technology, structure, culture, or procedures. The specifics of how change should be executed will depend on the type of change. However, there are three tips that may facilitate the success of a change effort.

## Continue to Provide Support

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

## Create Small Wins

During a change effort, if the organization can create a history of small wins, change acceptance will be more likely (Kotter, 1996; Germann, 2006). If the change is large in scope and the payoff is

a long time away, employees may not realize change is occurring during the transformation period. However, if people see changes, improvements, and successes along the way, they will be inspired and motivated to continue the change effort. For this reason, breaking up the proposed change into phases may be a good idea because it creates smaller targets. Small wins are also important for planners of change to make the point that their idea is on the right track. Early success gives change planners more credibility while early failures may be a setback (Hamel, 2000).

## Eliminate Obstacles

When the change effort is in place, many obstacles may crop up along the way. There may be key people who publicly support the change effort while silently undermining the planned changes. There may be obstacles rooted in a company's structure, existing processes, or culture. It is the management's job to identify, understand, and remove these obstacles (Kotter, 1995). Ideally, these obstacles would have been eliminated before implementing the change, but sometimes unexpected roadblocks emerge as change is under way.

# Refreezing

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

## Publicize Success

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

# Reward Change Adoption

To ensure that change becomes permanent, organizations may benefit from rewarding those who embrace the change effort (an aspect of the controlling function). The rewards do not necessarily have to be financial. The simple act of recognizing those who are giving support to the change effort in front of their peers may encourage others to get on board. When the new behaviors employees are expected to demonstrate (such as using a new computer program, filling out a new form, or simply greeting customers once they enter the store) are made part of an organization's reward system, those behaviors are more likely to be taken seriously and repeated, making the change effort successful (Gale, 2003).

## Embracing Continuous Change

While Lewin's three-stage model offers many useful insights into the process of implementing change, it views each organizational change as an episode with a beginning, middle, and end. In contrast with this episodic change assumption, some management experts in the 1990s began to propose that change is—or ought to be—a continuous process.



The learning organization is an example of a company embracing continuous change. By setting up a dynamic feedback loop, learning can become a regular part of daily operations. If an employee implements a new method or technology that seems to be successful, a learning organization is in a good position to adopt it. By constantly being aware of how employee actions and outcomes affect others as well as overall company productivity, the inevitable small changes throughout organizations can be rapidly absorbed and tailored for daily operations. When an organization understands that change does indeed occur constantly, it will be in a better position to make use of good changes and intervene if a change seems detrimental.

### *Key Takeaway*

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

### *Exercises*

1. What are the benefits of employee participation in change management?

2. Imagine that you are introducing a new system to college students where they would have to use a special ID number you create for them for activities such as logging on to campus computers or using library resources. How would you plan and implement the change? Explain using Lewin's three-stage framework.
3. Why are successful companies less likely to change? What should companies do to make organizational change part of their culture?

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## 8.7 Building Your Change Management Skills

### *Learning Objective*

1. Identify guidelines for overcoming resistance to change.

## Overcoming Resistance to Your Proposals

You feel that a change is needed. You have a great idea. But people around you do not seem convinced. They are resisting your great idea. How do you make change happen?

- *Listen to naysayers.* You may think that your idea is great, but listening to those who resist may give you valuable ideas about why it may not work and how to design it more effectively.
- *Is your change revolutionary?* If you are trying to change dramatically the way things are done, you will find that

resistance is greater. If your proposal involves incrementally making things better, you may have better luck.

- *Involve those around you in planning the change.* Instead of providing the solutions, make them part of the solution. If they admit that there is a problem and participate in planning a way out, you would have to do less convincing when it is time to implement the change.
- *Assess your credibility.* When trying to persuade people to change their ways, it helps if you have a history of suggesting implementable changes. Otherwise, you may be ignored or met with suspicion. This means you need to establish trust and a history of keeping promises over time before you propose a major change.
- *Present data to your audience.* Be prepared to defend the technical aspects of your ideas and provide evidence that your proposal is likely to work.
- *Appeal to your audience's ideals.* Frame your proposal around the big picture. Are you going to create happier clients? Is this going to lead to a better reputation for the company? Identify the long-term goals you are hoping to accomplish that people would be proud to be a part of.
- *Understand the reasons for resistance.* Is your audience resisting because they fear change? Does the change you propose mean more work for them? Does it affect them in a negative way? Understanding the consequences of your proposal for the parties involved may help you tailor your pitch to your audience (McGoon, 1995; Michelman, 2007; Stanley, 2002).

## *Key Takeaway*

There are several steps you can take to help you overcome resistance to change. Many of them share the common theme of respecting those who are resistant so you can understand and learn from their concerns.

## *Exercises*

1. What do you think are some key reasons why people resist change?
2. Do you think some people are more resistant to change regardless of what it is? Why do you think this is?

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PART IX

# CHAPTER 9: STRATEGIC HUMAN RESOURCE MANAGEMENT

9.1 Strategic Human Resource Management

9.2 Case in Point: Kronos Uses Science to Find the Ideal Employee

9.3 The Changing Role of Strategic Human Resource Management  
in Principles of Management

9.4 The War for Talent

9.5 Effective Selection and Placement Strategies

9.6 The Roles of Pay Structure and Pay for Performance

9.7 Designing a High-Performance Work System

9.8 Tying It All Together—Using the HR Balanced Scorecard to  
Gauge and Manage Human Capital, Including Your Own





# 9.1 Strategic Human Resource Management

Figure 9.1



Strategic human resource management ensures that the organization's human resources are in the right place at the right time to secure competitive advantage.

Peter Miller – [Chess Pieces](#) – CC BY-NC-ND 2.0.

## *What's in It for Me?*

Reading this chapter will help you do the following:

1. Understand the scope and changing role of strategic human resource management (SHRM) in principles of management.
2. Visualize the battlefield in the war for talent.
3. Engage in effective selection and placement strategies.
4. Understand the roles of pay structure and pay for performance.
5. Design a high-performance work system.
6. Use the human resources Balanced Scorecard to gauge and proactively manage human capital, including your own.

You have probably heard the saying, *people make the place*. In today's fast-changing environment, organizations need employees who understand the organization's strategy and are empowered to execute it. To achieve this, organizations need to follow a strategic human resource management (SHRM) approach. SHRM ensures that people are a key factor in a firm's competitive advantage. Thus, as summarized in the following figure, SHRM is an integral part of the control portion of the planning-organizing-leading-controlling (P-O-L-C) framework.

Figure 9.2 The P-O-L-C Framework

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

Organizations need human resources (HR) to be a partner in identifying, attracting, and hiring the type of employees who will be most qualified to help the company achieve its goals. SHRM requires attracting the right employees to the company, identifying metrics to help employees stay on target to meet the company's goals, and rewarding them appropriately for their efforts so that they stay engaged and motivated. Having all these components in place—designing a high-performance work system—improves organizational performance and unleashes employee talent.

Figure 9.3



Strategic human resource management is concerned with the “people” factor as a source of competitive advantage.

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## 9.2 Case in Point: Kronos Uses Science to Find the Ideal Employee



Figure 9.4



Kensavage – [Kronos incorporated](#) – public domain.

You are interviewing a candidate for a position as a cashier in a supermarket. You need someone polite, courteous, patient, and dependable. The candidate you are talking to seems nice. But how do you know who is the right person for the job? Will the job candidate like the job or get bored? Will they have a lot of accidents on the job or be fired for misconduct? Don't you wish you knew before hiring? One company approaches this problem scientifically, saving companies time and money on hiring hourly wage employees.

Retail employers do a lot of hiring, given their growth and high turnover rate. According to one estimate, replacing an employee who leaves in retail costs companies around \$4,000. High turnover also endangers customer service. Therefore, retail employers have

an incentive to screen people carefully so that they hire people with the best chance of being successful and happy on the job. Unicru, an employee selection company, developed software that quickly became a market leader in screening hourly workers. The company was acquired by Massachusetts-based Kronos Inc. (NASDAQ: KRON) in 2006 and is currently owned by a private equity firm.

The idea behind the software is simple: If you have a lot of employees and keep track of your data over time, you have access to an enormous resource. By analyzing this data, you can specify the profile of the “ideal” employee. The software captures the profile of the potential high performers, and applicants are screened to assess their fit with this particular profile. More important, the profile is continually updated as studies that compare employee profiles to job performance are conducted. As the number of studies gets larger, the software does a better job of identifying the right people for the job.

If you applied for a job in retail, you may have already been a part of this database: the users of this system include giants such as Universal Studios, Costco Wholesale Corporation, Burger King, and other retailers and chain restaurants. In companies such as Albertsons or Blockbuster, applicants can either use a kiosk in the store to answer a list of questions and to enter their background, salary history, and other information or apply online from their home computers. The software screens people on basic criteria such as availability in scheduling as well as personality traits.

Candidates are asked to agree or disagree with statements such as “I often make last-minute plans” or “I work best when I am on a team.” Additionally, questions about how an applicant would react in specific job-related situations and about person-job fit are included. After the candidates complete the questions, hiring managers are sent a report complete with a color-coded suggested course of action. Red means the candidate does not fit the job, yellow indicates the hiring manager should proceed with caution, and green means the candidate is likely a good fit. Because of the use of different question formats and complex scoring methods, the

company contends that faking answers to the questions of the software is not easy because it is difficult for candidates to predict the desired profile.

Matching candidates to jobs has long been viewed as a key way of ensuring high performance and low turnover in the workplace, and advances in computer technology are making it easier and more efficient to assess candidate–job fit. Companies using such technology are cutting down the time it takes to hire people, and it is estimated that using such technologies lowers their turnover by 10%–30%.

Case written based on information from Berta, D. (2002, February 25). Industry increases applicant screening amid labor surplus, security concerns. *Nation's Restaurant News*, 36(8), 4; Frauenheim, E. (2006, March 13). Unicru beefs up data in latest screening tool. *Workforce Management*, 85(5), 9–10; Frazier, M. (2005, April). Help wanted. *Chain Store Age*, 81(4), 37–39; Haaland, D. E. (2006, April 17). Safety first: Hire conscientious employees to cut down on costly workplace accidents. *Nation's Restaurant News*, 40(16), 22–24; Overholt, A. (2002, February). True or false? You're hiring the right people. *Fast Company*, 55, 108–109; Rafter, M. V. (2005, May). Unicru breaks through in the science of “smart hiring.” *Workforce Management*, 84(5), 76–78.

## Discussion Questions

1. Strategic human resource management (SHRM) is included in your P-O-L-C framework as an essential element of control. Based on what you have learned about Kronos, how might SHRM be related to the planning, organizing, and leading facets of the P-O-L-C framework?



2. What can a company do in addition to using techniques like these to determine whether a person is a good candidate for a job?
3. What are potential complicating factors in using personality testing for employee selection?
4. Why do you think that retail companies are particularly prone to high turnover rates?
5. What steps do you take as a job seeker to ensure that an organization is a good fit for you?

## 9.3 The Changing Role of Strategic Human Resource Management in Principles of Management

### *Learning Objectives*

1. Understand how HR is becoming a strategic partner.
2. Understand the importance of an organization's human capital.
3. List the key elements of SHRM.
4. Explain the importance of focusing on outcomes.

The role of HR is changing. Previously considered a support function, HR is now becoming a strategic partner in helping a company achieve its goals. A strategic approach to HR means going beyond the administrative tasks like payroll processing. Instead, managers need to think more broadly and deeply about how employees will contribute to the company's success.

# HR as a Strategic Partner

Strategic human resource management (SHRM) is not just a function of the HR department—all managers and executives need to be involved because the role of people is so vital to a company's competitive advantage (Becker & Huselid, 2006). In addition, organizations that value their employees are more profitable than those that do not (Huselid, 1995; Pfeffer, 1998; Pfeffer & Veiga, 1999; Welbourne & Andrews, 1996). Research shows that successful organizations have several things in common, such as providing employment security, engaging in selective hiring, using self-managed teams, being decentralized, paying well, training employees, reducing status differences, and sharing information (Pfeffer & Veiga, 1999). When organizations enable, develop, and motivate human capital, they improve accounting profits as well as shareholder value in the process (Brian, et. al., 2002). The most successful organizations manage HR as a strategic asset and measure HR performance in terms of its strategic impact.

Here are some questions that HR should be prepared to answer in this new world (Ulrich, 1998).

- *Competence:* To what extent does our company have the required knowledge, skills, and abilities to implement its strategy?
- *Consequence:* To what extent does our company have the right measures, rewards, and incentives in place to align people's efforts with the company strategy?
- *Governance:* To what extent does our company have the right structures, communications systems and policies to create a high-performing organization?
- *Learning and Leadership:* To what extent can our company respond to uncertainty and learn and adapt to change quickly?

# The Importance of Human Capital

Employees provide an organization's human capital. Your human capital is the set of skills that you have acquired on the job, through training and experience, and which increase your value in the marketplace. The Society of Human Resource Management's *Research Quarterly* defined an organization's human capital as follows: "A company's human capital asset is the collective sum of the attributes, life experience, knowledge, inventiveness, energy and enthusiasm that its people choose to invest in their work (Weatherly, 2003)."

## Focus on Outcomes

Unfortunately, many HR managers are more effective in the technical or operational aspects of HR than they are in the strategic, even though the strategic aspects have a much larger effect on the company's success (Huselid, et. al., 1999). In the past, HR professionals focused on compliance to rules, such as those set by the federal government, and they tracked simple metrics like the number of employees hired or the number of hours of training delivered. The new principles of management, however, require a focus on outcomes and results, not just numbers and compliance.

Just as lawyers count how many cases they've won—not just how many words they used—so, too must HR professionals track how employees are using the skills they've learned to attain goals, not just how many hours they've spent in training (Ulrich, 1998).

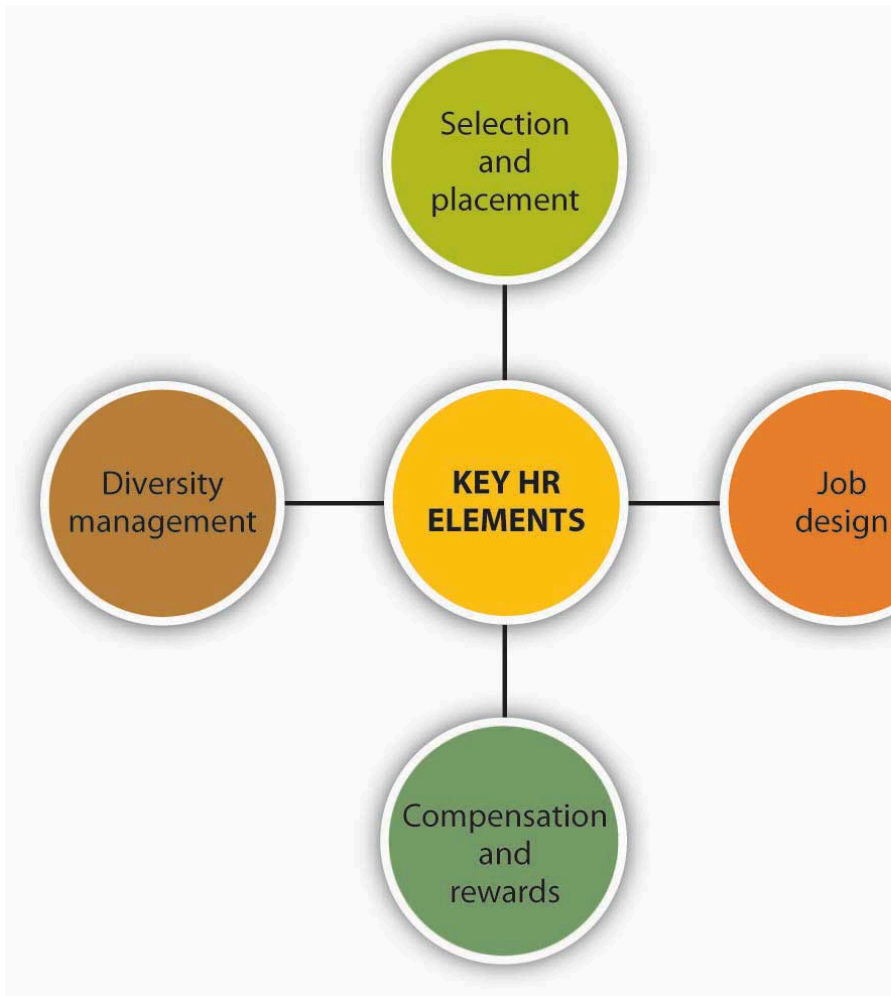
John Murabito, executive vice president and head of HR and Services at Cigna, says that HR executives need to understand the company's goals and strategy and then provide employees with the skills needed. Too often, HR execs get wrapped up in their own initiatives without understanding how their role contributes to the business. That is dangerous, because when it comes to the HR department, "anything that is administrative or transactional is going to get outsourced," Murabito says (Marquez, 2007). Indeed, the number of HR outsourcing contracts over \$25 million has been increasing, with 2,708 active contracts under way in 2007 (Shared Xpertise, 2009). For example, the Bank of America outsourced its HR administration to Arinso. Arinso will provide timekeeping, payroll processing, and payroll services for 10,000 Bank of America employees outside the U.S (HRO Europe, 2009). To avoid outsourcing, HR needs to stay relevant and accept accountability for its business results. In short, the people strategy needs to be fully aligned with the company's business strategy and keep the focus on outcomes.

## Key Elements of HR

Beyond the basic need for compliance with HR rules and regulations, the four key elements of HR are summarized in the following figure. In high-performing companies, each element of

the HR system is designed to reflect best practice and to maximize employee performance. The different parts of the HR system are strongly aligned with company goals.

## Figure 9.5 Key HR Elements



# Selection and Placement

When hiring, acquaint prospective new hires with the nature of the jobs they will be expected to fulfill. This includes explaining the technical competencies needed (for example, collecting statistical data) and defining behavioral competencies. Behavioral competencies may have a customer focus, such as the ability to show empathy and support of customers' feelings and points of view, or a work management focus, such as the ability to complete tasks efficiently or to know when to seek guidance.

In addition, make the organization's culture clear by discussing the values that underpin the organization—describe your organization's “heroes.” For example, are the heroes of your company the people who go the extra mile to get customers to smile? Are they the people who toil through the night to develop new code? Are they the ones who can network and reach a company president to make the sale? By sharing such stories of company heroes with your potential hires, you'll help reinforce what makes your company unique. This, in turn, will help the job candidates determine whether they'll fit into your organization's culture.

## Job Design

Design jobs that involve doing a whole piece of work and are challenging but doable. Job design refers to the process of putting



together various elements to form a job, bearing in mind organizational and individual worker requirements, as well as considerations of health, safety, and ergonomics. Train employees to have the knowledge and skills to perform all parts of their job and give them the authority and accountability to do so (Lawler, 1992). Job enrichment is important for retaining your employees.

One company that does training right is Motorola. As a global company, Motorola operates in many countries, including China. Operating in China presents particular challenges in terms of finding and hiring skilled employees. In a recent survey conducted by the American Chamber of Commerce in Shanghai, 37% of U.S.-owned enterprises operating in China said that recruiting skilled employees was their biggest operational problem (Lane & Pollner, 2008). Indeed, more companies cited HR as a problem than cited regulatory concerns, bureaucracy, or infringement on intellectual property rights. The reason is that Chinese universities do not turn out candidates with the skills that multinational companies need. As a result, Motorola has created its own training and development programs to bridge the gap. For example, Motorola's China Accelerated Management Program is designed for local managers. Another program, Motorola's Management Foundation program, helps train managers in areas such as communication and problem solving. Finally, Motorola offers a high-tech MBA program in partnership with Arizona State University and Tsinghua University so that top employees can earn an MBA in-house (Lane & Pollner, 2008). Such programs are tailor-made to the low-skilled but highly motivated Chinese employees.

# Compensation and Rewards

Evaluate and pay people based on their performance, not simply for showing up on the job. Offer rewards for skill development and organizational performance, emphasizing teamwork, collaboration, and responsibility for performance. Help employees identify new skills to develop so that they can advance and achieve higher pay and rewards. Compensation systems that include incentives, gainsharing, profit-sharing, and skill-based pay reward employees who learn new skills and put those skills to work for the organization. Employees who are trained in a broad range of skills and problem solving are more likely to grow on the job and feel more satisfaction. Their training enables them to make more valuable contributions to the company, which, in turn, gains them higher rewards and greater commitment to the company (Barnes, 2001). The company likewise benefits from employees' increased flexibility, productivity, and commitment.

When employees have access to information and the authority to act on that information, they're more involved in their jobs and more likely to make the right decision and take the necessary actions to further the organization's goals. Similarly, rewards need to be linked to performance, so that employees are naturally inclined to pursue outcomes that will gain them rewards and further the organization's success at the same time.

# Diversity Management

Another key to successful SHRM in today's business environment is embracing diversity. In past decades, "diversity" meant avoiding discrimination against women and minorities in hiring. Today, diversity goes far beyond this limited definition; diversity management involves actively appreciating and using the differing perspectives and ideas that individuals bring to the workplace. Diversity is an invaluable contributor to innovation and problem-solving success. As James Surowiecki shows in *The Wisdom of Crowds*, the more diverse the group in terms of expertise, gender, age, and background, the more ability the group has to avoid the problems of groupthink (Surowiecki, 2005). Diversity helps company teams to come up with more creative and effective solutions. Teams whose members have complementary skills are often more successful because members can see one another's blind spots. Members will be more inclined to make different kinds of mistakes, which means that they'll be able to catch and correct those mistakes.

## *Key Takeaway*

Human resources management is becoming increasingly important in organizations because today's knowledge economy requires employees to contribute ideas and be engaged in executing the company's strategy. HR is thus becoming a strategic partner by identifying the skills that employees need and then providing employees with the training and structures needed to develop and deploy those

competencies. All the elements of HR—selection, placement, job design, and compensation—need to be aligned with the company’s strategy so that the right employees are hired for the right jobs and rewarded properly for their contributions to furthering the company’s goals.

## *Exercises*

1. What are the advantages of the new SHRM approach?
2. Name three elements of HR.
3. What must HR do to be a true strategic partner of the company?
4. What benefits does a diverse workforce provide the company?
5. If you were an HR manager, what steps would you take to minimize the outsourcing of jobs in your department?

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## 9.4 The War for Talent

### *Learning Objectives*

1. Define talent management.
2. Attract the right workers to your organization.
3. Understand how to keep your stars.
4. Understand the benefits of good talent management.

You have likely heard the term, the war for talent, which reflects competition among organizations to attract and retain the most able employees. Agencies that track demographic trends have been warning for years that the U.S. workforce will shrink in the second and third decades of the 21st century as the baby boom generation (born 1945–1961) reaches retirement age. According to one source, there will be 11.5 million more jobs than workers in the United States by 2010.<sup>1</sup> Even though many boomers say they want to (or have to) continue working past the traditional age of retirement, those who do retire or who leave decades-long careers to pursue “something I’ve always wanted to do” will leave employers scrambling to replace well-trained, experienced workers. As workers compete for the most desirable jobs, employers will have to compete even more fiercely to find the right talent.

Figure 9.6



The war for talent is about attracting, developing, and retaining the most capable employees.

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## What Talent Management Means

Peter Cappelli of the Wharton School (Cappelli, 2008) defines talent management as anticipating the need for human capital and setting



a plan to meet it. It goes hand in hand with succession planning, the process whereby an organization ensures that employees are recruited and developed to fill each key role within the company. Most companies, unfortunately, do not plan ahead for the talent they need, which means that they face shortages of critical skills at some times and surpluses at other times. Other companies use outdated methods of succession planning that don't accurately forecast the skills they'll need in the future.

Interestingly, however, techniques that were developed to achieve productivity breakthroughs in manufacturing can be applied to talent management. For example, it is expensive to develop all talent internally; training people takes a long time and requires accurate predictions about which skill will be needed. Such predictions are increasingly difficult to make in our uncertain world. Therefore, rather than developing everyone internally, companies can hire from the outside when they need to tap specific skills. In manufacturing, this principle is known as "make or buy." In HR, the solution is to make *and* buy; that is, to train some people and to hire others from the external marketplace. In this case, "making" an employee means hiring a person who doesn't yet have all the needed skills to fulfill the role, but who can be trained ("made") to develop them. The key to a successful "make" decision is to distinguish between the high-potential employees who don't yet have the skills but who can learn them from the mediocre employees who merely lack the skills. The "buy" decision means hiring an employee who has all the necessary skills and experience to fulfill the role from day one. The "buy" decision is useful when it's too difficult to predict exactly which skills will be needed in the future (Buhler, 2008).

Another principle from manufacturing that works well in talent management is to run smaller batch sizes. That is, rather than sending employees to 3-year-long training programs, send them to shorter programs more frequently. With this approach, managers don't have to make the training decision so far in advance. They can wait to decide exactly which skills employees will learn closer to the

time the skill is needed, thus ensuring that employees are trained on the skills they'll actually use.

## Attracting the Right Workers to the Organization

Winning the war for talent means more than simply attracting workers to your company. It means attracting the *right* workers—the ones who will be enthusiastic about their work. Enthusiasm for the job requires more than having a good attitude about receiving good pay and benefits—it means that an employee's goals and aspirations also match those of the company. Therefore, it's important to identify employees' preferences and mutually assess how well they align with the company's strategy. To do this, the organization must first be clear about the type of employee it wants. Companies already do this with customers: marketing executives identify specific segments of the universe of buyers to target for selling products. Red Bull, for example, targets college-age consumers, whereas SlimFast goes for adults of all ages who are overweight. Both companies are selling beverages but to completely different consumer segments. Similarly, companies need to develop a profile of the type of workers they want to attract. Do you want entrepreneurial types who seek autonomy and continual learning, or do you want team players who enjoy collaboration, stability, and structure? Neither employee type is inherently “better” than another, but an employee who craves autonomy may feel

constrained within the very same structure in which a team player would thrive.

Earlier, we said that it was important to “mutually assess” how well employees’ preferences aligned with the company’s strategy. One-half of “mutual” refers to the company, but the other half refers to the job candidates. They also need to know whether they’ll fit well into the company. One way to help prospective hires make this determination is to describe to them the “signature experience” that sets your company apart. As Tamara Erickson and Lynda Gratton define it, your company’s signature experience is the distinctive practice that shows what it’s really like to work at your company (Erickson & Gratton, 2007).

For example, here are the signature experiences of two companies, Whole Foods and Goldman Sachs: At Whole Foods, team-based hiring is a signature experience—employees in each department vote on whether a new employee will be retained after a 4-week trial period. This demonstrates to potential hires that Whole Foods is all about collaboration. In contrast, Goldman Sachs’s signature experience is multiple one-on-one interviews. The story often told to prospective hires is of the MBA student who went through 60 interviews before being hired. This story signals to new hires that they need to be comfortable meeting endless new people and building networks across the company. Those who enjoy meeting and being interviewed by so many diverse people are exactly the ones who will fit into Goldman’s culture.

The added benefit of hiring workers who match your organizational culture and are engaged in their work is that they will be less likely to leave your company just to get a higher salary.

# Keeping Star Employees

The war for talent stems from the approaching shortage of workers. As we mentioned earlier in this chapter, the millions of baby boomers reaching retirement age are leaving a gaping hole in the U.S. workforce. What's more, workers are job-hopping more frequently than in the past. According to the U.S. Bureau of Labor Statistics, the average job tenure has dropped from 15 years in 1980 to 4 years in 2007. As a manager, therefore, you need to give your employees reasons to stay with your company. One way to do that is to spend time talking with employees about their career goals. Listen to their likes and dislikes so that you can help them use the skills they like using or develop new ones they wish to acquire (Kaye, 2008).

Don't be afraid to "grow" your employees. Some managers want to keep their employees in their department. They fear that helping employees grow on the job will mean that employees will outgrow their job and leave it (Field, 2008). But, keeping your employees down is a sure way to lose them. What's more, if you help your employees advance, it'll be easier for you to move up because your employees will be better able to take on the role you leave behind.

In some cases, your employees may not be sure what career path they want. As a manager, you can help them identify their goals by asking questions such as:

- What assignments have you found most engaging?
- Which of your accomplishments in the last six months made you proudest?
- What makes for a great day at work (Butler, 2007)?

# What Employees Want

Employees want to grow and develop, stretching their capabilities. They want projects that engage their heads as well as their hearts, and they want to connect with the people and things that will help them achieve their professional goals (Deloitte Research, 2007). Here are two ways to provide this to your employees: First, connect people with mentors and help them build their networks. Research suggests that successful managers dedicate 70% more time to networking activities and 10% more time to communication than their less successful counterparts (Luthans, et. al., 1988). What makes networks special? Through networks, people energize one another, learn, create, and find new opportunities for growth. Second, help connect people with a sense of purpose. Focusing on the need for purpose is especially important for younger workers, who rank meaningful work and challenging experiences at the top of their job search lists (Sheahan, 2006).

## Benefits of Good Talent Management

Global consulting firm McKinsey & Company conducted a study to identify a possible link between a company's financial performance and its success in managing talent. The survey results, reported

in May 2008, show that there was indeed a relationship between a firm's financial performance and its global talent management practices. Three talent management practices in particular correlated highly with exceptional financial performance:

- Creating globally consistent talent evaluation processes.
- Achieving cultural diversity in a global setting.
- Developing and managing global leaders (McKinsey Quarterly, 2007).

The McKinsey survey found that companies achieving scores in the top third in any of these three areas had a 70% chance of achieving financial performance in the top third of all companies (Gurthridge & Kom, 1988).

Let's take a closer look at what each of these three best practices entail. First, having consistent talent evaluation means that employees around the world are evaluated on the same standards. This is important because it means that if an employee from one country transfers to another, his or her manager can be assured that the employee has been held to the same level of skills and standards. Second, having cultural diversity means having employees who learn something about the culture of different countries, not just acquire language skills. This helps bring about open-mindedness across cultures. Finally, developing global leaders means rotating employees across different cultures and giving them international experience. Companies who do this best also have policies of giving managers incentives to share their employees with other units.

### *Key Takeaway*

The coming shortage of workers makes it imperative for managers to find, hire, retain, and develop their employees.

Managers first need to define the skills that the company will need for the future. Then, they can “make or buy”—that is, train or hire—employees with the needed skills. Retaining these employees requires engaging them on the job. Good talent management practices translate to improved financial performance for the company as a whole.

## *Exercises*

1. How might a manager go about identifying the skills that the company will need in the future?
2. Describe the “make or buy” option and how it can be applied to HR.
3. How would you go about attracting and recruiting talented workers to your organization? Suggest ideas you would use to retain stars and keep them happy working for you.
4. What skills might an organization like a bank need from its employees?

<sup>1</sup>Extreme talent shortage makes competition fierce for key jobs and highlights needs for leadership development. (2007, November 26). *Business Wire*, 27.

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## 9.5 Effective Selection and Placement Strategies

### *Learning Objectives*

1. Explain why a good job description benefits the employer and the applicant.
2. Describe how company culture can be used in selecting new employees.
3. Discuss the advantages and disadvantages of personnel testing.
4. Describe some considerations in international staffing and placement

Selecting the right employees and placing them in the right positions within the company is a key HR function and is vital to a company's success. Companies should devote as much care and attention to this "soft" issue as they do to financial planning because errors will have financial impact and adverse effects on a company's strategy.

### Job-Description Best

# Practices

Walt has a problem. He works as a manager in a medium-sized company and considers himself fortunate that the organizational chart allows him a full-time administrative assistant (AA). However, in the two years Walt has been in his job, five people have held this AA job. The most recent AA, who resigned after four weeks, told Walt that she had not known what the job would involve. “I don’t do numbers, I’m not an accountant,” she said. “If you want someone to add up figures and do calculations all day, you should say so in the job description. Besides, I didn’t realize how long and stressful my commute would be—the traffic between here and my house is murder!”

Taken aback, Walt contacted the company’s HR department to clarify the job description for the AA position. What he learned was that the description made available to applicants was, indeed, inadequate in a number of ways. Chances are that frequent turnover in this AA position is draining Walt’s company of resources that could be used for much more constructive purposes.

An accurate and complete job description is a powerful SHRM tool that costs little to produce and can save a bundle in reduced turnover. While the realistic description may discourage some applicants (for example, those who lack an affinity for calculations might not bother to apply for Walt’s AA position), those who follow through with the application process are much more likely to be satisfied with the job once hired. In addition to summarizing what the worker will actually be doing all day, here are some additional suggestions for writing an effective job description:

- List the job requirements in bullet form so that job seekers can scan the posting quickly.
- Use common industry terms, which speak to knowledgeable job seekers.

- Avoid organization-specific terms and acronyms, which would confuse job seekers.
- Use meaningful job titles (not the internal job codes of the organization).
- Use key words taken from the list of common search terms (to maximize the chance that a job posting appears on a job seeker's search).
- Include information about the organization, such as a short summary and links to more detailed information.
- Highlight special intangibles and unusual benefits of the job and workplace (e.g., flextime, travel, etc.).
- Specify the job's location (and nearest large city) and provide links to local community pages (to entice job seekers with quality-of-life information).

## Tailoring Recruitment to Match Company Culture

Managers who hire well don't just hire for skills or academic background; they ask about the potential employee's philosophy on life or how the candidate likes to spend free time. These questions help the manager assess whether the cultural fit is right. A company in which all work is done in teams needs team players, not just "A" students. Ask questions like, "Do you have a personal mission statement? If not, what would it be if you wrote one today (Pfeffer, 1998)?" to identify potential hires' preferences.

At Google, for example, job candidates are asked questions like, “If you could change the world using Google’s resources, what would you build (Slater, 2008)?” Google wants employees who will think and act on a grand scale, employees who will take on the challenges of their jobs, whatever their job may be. Take Josef DeSimone, who’s Google’s executive chef. DeSimone, who’s worked everywhere from family-style restaurants to Michelin-caliber ones, was amazed to learn that Google had 17 cafes for its employees. “Nobody changes the menu daily on this scale,” he says. “It’s unheard of.” When he was hired, DeSimone realized, “Wow, you hire a guy who’s an expert in food and let him run with it! You don’t get in his way or micromanage (Slater, 2008).” Google applies this approach to all positions and lets employees run with the challenge.

Traditionally, companies have built a competitive advantage by focusing on what they have—structural advantages such as economies of scale, a well-established brand, or dominance in certain market segments. Companies such as Southwest Airlines, by contrast, see its people as their advantage: “Our fares can be matched; our airplanes and routes can be copied. But we pride ourselves on our customer service,” said Sherry Phelps, director of corporate employment. That’s why Southwest looks for candidates who generate enthusiasm and leans toward extraverted personalities (Bruce, 1997; Freiberg & Freiberg, 2003; Hallowell, 1996; Heskett & Hallowell, 1993; LaBarre, 1996; Labich, 1994; McNerney, 1996; Tomkins, 1996). Southwest hires for attitude. Flight attendants have been known to sing the safety instructions, and pilots tell jokes over the public address system.

Southwest Airlines makes clear right from the start the kind of people it wants to hire. For example, recruitment ads showed Southwest founder Herb Kelleher dressed as Elvis and read: “Work in a Place Where Elvis Has Been Spotted...The qualifications? It helps to be outgoing. Maybe even a bit off-center. And be prepared to stay awhile. After all, we have the lowest employee turnover rate in the industry.” People may scoff or question why Southwest indulges in such showy activities or wonder how an airline can treat

its jobs so lightly. Phelps answers, “We do take our work seriously. It’s ourselves that we don’t.” People who don’t have a humane, can-do attitude are fired. Southwest has a probationary period during which it determines the compatibility of new hires with the culture. People may be excellent performers, but if they don’t match the culture, they are let go. As Southwest’s founder Kelleher once said, “People will write me and complain, ‘Hey, I got terminated or put on probation for purely subjective reasons.’ And I’ll say, ‘Right! Those are the important reasons.’”

In many states, employees are covered under what is known as the at-will employment doctrine. At-will employment is a doctrine of American law that defines an employment relationship in which either party can break the relationship with no liability, provided there was no express contract for a definite term governing the employment relationship and that the employer does not belong to a collective bargaining unit (i.e., a union) (Rothstein, et. al., 1987). However, there are legal restrictions on how purely subjective the reasons for firing can be. For instance, if the organization has written hiring and firing procedures and does not follow them in selective cases, then those cases might give rise to claims of wrongful termination. Similarly, in situations where termination is clearly systematic, for example, based on age, race, religion, and so on, wrongful termination can be claimed.

# Tools and Methods: Interviewing and Testing

To make good selection and placement decisions, you need information about the job candidate. Two time-tested methods to get that information are testing and interviewing.

A detailed interview begins by asking the candidate to describe his work history and then getting as much background on his most recent position (or the position most similar the open position). Ask about the candidate's responsibilities and major accomplishments. Then, ask in-depth questions about specific job situations. Called situational interviews, these types of interviews can focus on past experience or future situations. For example, experienced-based questions are "Tell me about a major initiative you developed and the steps you used to get it adopted." Or, "Describe a problem you had with someone and how you handled it." In contrast, future-oriented situation interview questions ask candidates to describe how they would handle a future hypothetical situation, such as: "Suppose you came up with a faster way to do a task, but your team was reluctant to make the change. What would you do in that situation?"

In addition to what is asked, it is also important that interviewers understand what they should not ask, largely because certain questions lead to answers that may be used to discriminate. There are five particularly sensitive areas. First, the only times you can ask about age are when it is a requirement of a job duty or you need to determine whether a work permit is required. Second, it is rarely appropriate or legal to ask questions regarding race, color, national origin, or gender. Third, although candidates may volunteer religious or sexually-orientated information in an interview, you still need to be careful not to discriminate. Ask questions that are relevant to work experience or qualifications. Fourth, firms cannot

discriminate for health or disabilities; you may not ask about smoking, health-related questions, or disabilities in an interview. Finally, you may not ask questions about marital status, children, personal life, pregnancy, or arrest record. These kinds of questions could be tempting to ask if you are interviewing for a position requiring travel; however, you can only explain the travel requirements and confirm that the requirements are acceptable.

In addition to interviews, many employers use testing to select and place job applicants. Any tests given to candidates must be job related and follow guidelines set forth by the Equal Opportunity Employment Commission to be legal. For the tests to be effective, they should be developed by reputable psychologists and administered by professionally qualified personnel who have had training in occupations testing in an industrial setting. The rationale behind testing is to give the employer more information before making the selection and placement decision—information vital to assessing how well a candidate is suited to a particular job. Most preemployment assessment tests measure thinking styles, behavioral traits, and occupational interests. The results are available almost immediately after a candidate completes the roughly hour-long questionnaire. Thinking styles tests can tell the potential employer how fast someone can learn new things or how well he or she can verbally communicate. Behavioral traits assessments measure energy level, assertiveness, sociability, manageability, and attitude. For example, a high sociability score would be a desirable trait for salespeople (Mrosko, 2006).

## International Staffing and

# Placement

In our increasingly global economy, managers need to decide between using expatriates or hiring locals when staffing international locations. On the surface, this seems a simple choice between the firm-specific expertise of the expatriate and the cultural knowledge of the local hire. In reality, companies often fail to consider the high probability and high cost of expatriates failing to adapt and perform in their international assignments.

Figure 9.7





Living and working in another place, such as São Paulo, Brazil, can be exciting, rewarding, and challenging.

Luiz Henrique Varga Assunção – [Lua em São Paulo](#) – CC BY-NC-ND 2.0.

For example, cultural issues can easily create misunderstandings between expatriate managers and employees, suppliers, customers, and local government officials. At an estimated cost of \$200,000 per failed expatriate, international assignment decisions are often made too lightly in many companies. The challenge is to overcome the natural tendency to hire a well-known, corporate insider over an unknown local at the international site. Here are some indications to use to determine whether an expatriate or a local hire would be best.

Managers may want to choose an expatriate when:

- Company-specific technology or knowledge is important.
- Confidentiality in the staff position is an issue.
- There is a need for speed (assigning an expatriate is usually faster than hiring a local).
- Work rules regarding local workers are restrictive.
- The corporate strategy is focused on global integration/

Managers may want to staff the position with a local hire when:

- The need to interact with local customers, suppliers, employees, or officials is paramount.
- The corporate strategy is focused on multidomestic/market-oriented operations.
- Cost is an issue (expatriates often bring high relocation/travel costs).
- Immigration rules regarding foreign workers are restrictive.
- There are large cultural distances between the host country and candidate expatriates (Weems, 1998).

## *Key Takeaway*

Effective selection and placement means finding and hiring the right employees for your organization and then putting them into the jobs for which they are best suited. Providing an accurate and complete job description is a key step in the selection process. An important determination is whether the candidate's personality is a good fit for the company's culture. Interviewing is a common selection method. Situational interviews ask candidates to describe how they handled specific situations in the past (experience-based situational interviews) and how they would handle hypothetical questions in the future (future-oriented situational interviews.) Other selection tools include cognitive tests, personality inventories, and behavioral traits assessments. Specific personalities may be best suited for positions that require sales, teamwork, or entrepreneurship, respectively. In our increasingly global economy, managers need to decide between using expatriates or hiring locals when staffing international locations.

## *Exercises*

1. What kind of information would you include in a job description?
2. Do you think it is important to hire employees who

- fit into the company culture? Why or why not?
3. List questions that you would ask in a future-oriented situational interview.
  4. What requirements must personnel tests meet?
  5. If you were hiring to fill a position overseas, how would you go about selecting the best candidate?

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## 9.6 The Roles of Pay Structure and Pay for Performance

### *Learning Objectives*

1. Explain the factors to be considered when setting pay levels.
2. Understand the value of pay for performance plans.
3. Discuss the challenges of individual versus team-based pay.

Pay can be thought of in terms of the “total reward” that includes an individual’s base salary, variable pay, share ownership, and other benefits. A bonus, for example, is a form of variable pay. A bonus is a one-time cash payment, often awarded for exceptional performance. Providing employees with an annual statement of all these benefits they receive can help them understand the full value of what they are getting (Anderson, 2007).

# Pay System Elements

As summarized in the following table, pay can take the form of direct or indirect compensation. Nonmonetary pay can include any benefit an employee receives from an employer or job that does not involve tangible value. This includes career and social rewards, such as job security, flexible hours and opportunity for growth, praise and recognition, task enjoyment, and friendships. Direct pay is an employee's base wage. It can be an annual salary, hourly wage, or any performance-based pay that an employee receives, such as profit-sharing bonuses.

## Table 9.1 Elements of a Pay System

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Nonmonetary pay	Includes benefits that do not involve tangible value.
Direct pay	Employee's base wage
Indirect pay	Everything from legally required programs to health insurance, retirement, housing, etc.
Basic pay	Cash wage paid to the employee. Because paying a wage is a standard practice, the competitive advantage can only come by paying a higher amount.
Incentive pay	A bonus paid when specified performance objectives are met. May inspire employees to set and achieve a higher performance level and is an excellent motivator to accomplish goals.
Stock options	A right to buy a piece of the business that may be given to an employee to reward excellent service. An employee who owns a share of the business is far more likely to go the extra mile for the operation.
Bonuses	A gift given occasionally to reward exceptional performance or for special occasions. Bonuses can show an employer appreciates his or her employees and ensures that good performance or special events are rewarded.

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Indirect compensation is far more varied, including everything from legally required public protection programs such as social security to health insurance, retirement programs, paid leave, child care, or housing. Some indirect compensation elements are required by law: social security, unemployment, and disability payments. Other indirect elements are up to the employer and can offer excellent ways to provide benefits to the employees and the employer as well. For example, a working parent may take a lower-paying job with flexible hours that will allow him or her to be home when the children get home from school. A recent graduate may be looking for stable work and an affordable place to live. Both of these individuals have different needs and, therefore, would appreciate different compensation elements.

# Setting Pay Levels

When setting pay levels for positions, managers should make sure that the pay level is fair relative to what other employees in the position are being paid. Part of the pay level is determined by the pay level at other companies. If your company pays substantially less than others, it's going to be the last choice of employment unless it offers something overwhelmingly positive to offset the low pay, such as flexible hours or a fun, congenial work atmosphere. Besides these external factors, companies conduct a job evaluation to determine the internal value of the job—the more vital the job to the company's success, the higher the pay level. Jobs are often ranked alphabetically—"A" positions are those on which the company's value depends, "B" positions are somewhat less important in that they don't deliver as much upside to the company, and "C" positions are those of least importance—in some cases, these are outsourced.

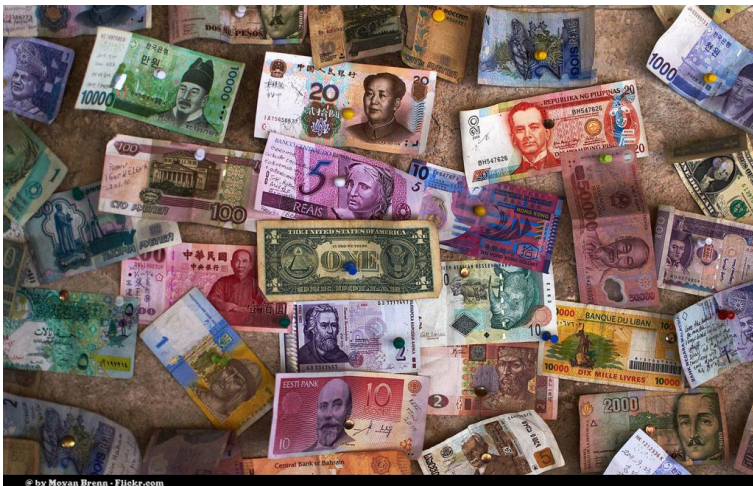
The most vital jobs to one company's success may not be the same as in other companies. For example, information technology companies may put top priority on their software developers and programmers, whereas for retailers such as Nordstrom, the "A" positions are those frontline employees who provide personalized service. For an airline, pilots would be a "B" job because, although they need to be well trained, investing further in their training is unlikely to increase the airline's profits. "C" positions for a retailer might include back office bill processing, while an information technology company might classify customer service as a "C" job.

When setting reward systems, it's important to pay for what the company actually hopes to achieve. Steve Kerr, vice president of corporate management at General Electric, talks about the common mistakes that companies make with their reward systems, such as saying they value teamwork but only rewarding individual effort. Similarly, companies say they want innovative thinking or risk



taking, but they reward people who “make the numbers (Kerr, 1995).” If companies truly want to achieve what they hope for, they need payment systems aligned with their goals. For example, if retention of star employees is important to your company, reward managers who retain top talent. At Pepsico, for instance, one-third of a manager’s bonus is tied directly to how well the manager did at developing and retaining employees. Tying compensation to retention makes managers accountable (Field, 2008).

Figure 9.8



Regardless of country, pay is a critical managerial control.

Moyan Brenn – [Money](#) – CC BY 2.0.

# Pay for Performance

As its name implies, pay for performance ties pay directly to an individual's performance in meeting specific business goals or objectives. Managers (often together with the employees themselves) design performance targets to which the employee will be held accountable. The targets have accompanying metrics that enable employees and managers to track performance. The metrics can be financial indicators, or they can be indirect indicators such as customer satisfaction or speed of development. Pay-for-performance schemes often combine a fixed base salary with a variable pay component (such as bonuses or stock options) that vary with the individual's performance.

# Innovative Employee Recognition Programs

In addition to regular pay structures and systems, companies often create special programs that reward exceptional employee performance. For example, the financial software company Intuit, Inc., instituted a program called Spotlight. The purpose of Spotlight is to “spotlight performance, innovation and service dedication (Hoyt, 2008).” Unlike regular salaries or year-end bonuses, spotlight awards can be given on the spot for specific behavior that meets the reward criteria, such as filing a patent, inventing a new product, or meeting a milestone for years of service. Rewards can be cash awards of \$500 to \$3,000 and can be made by managers without high-level approval. In addition to cash and noncash awards, two Intuit awards feature a trip with \$500 in spending money (How To Manage Human Resources, 2008).

## Pay Structures for Groups and Teams

So far, we have discussed pay in terms of individual compensation, but many employers also use compensation systems that reward all of the organization’s employees as a group or various groups

and teams within the organization. Let's examine some of these less traditional pay structures.

# Gainsharing

Sometimes called profit sharing, gainsharing is a form of pay for performance. In gainsharing, the organization shares the financial gains with employees. Employees receive a portion of the profit achieved from their efforts. How much they receive is determined by their performance against the plan. Here's how gainsharing works: First, the organization must measure the historical (baseline) performance. Then, if employees help improve the organization's performance on those measures, they share in the financial rewards achieved. This sharing is typically determined by a formula.

The effectiveness of a gainsharing plan depends on employees seeing a relationship between what they do and how well the organization performs. The larger the size of the organization, the harder it is for employees to see the effect of their work. Therefore, gainsharing plans are more effective in companies with fewer than 1,000 people (Lawler, 1992). Gainsharing success also requires the company to have good performance metrics in place so that employees can track their process. The gainsharing plan can only be successful if employees believe and see that if they perform better, they will be paid more. The pay should be given as soon as possible after the performance so that the tie between the two is established.

When designing systems to measure performance, realize that performance appraisals need to focus on quantifiable measures. Designing these measures with input from the employees helps

make the measures clear and understandable to employees and increases their buy-in that the measures are reasonable.

## Team-Based Pay

Many managers seek to build teams, but face the question of how to motivate all the members to achieve the team's goals. As a result, team-based pay is becoming increasingly accepted. In 1992, only 3% of companies had team-based pay. By 1996, 9% did, and another 39% were planning such systems (Flannery, 1996). With increasing acceptance and adoption come different choices and options of how to structure team-based pay. One way to structure the pay is to first identify the type of team you have—parallel, work, project, or partnership—and then choose the pay option that is most appropriate to that team type. Let's look at each team type in turn and the pay structures best suited for each.

*Parallel teams* are teams that exist alongside (parallel to) an individual's daily job. For example, a person may be working in the accounting department but also be asked to join a team on productivity. Parallel teams are often interdepartmental, meet part time, and are formed to deal with a specific issue. The reward for performance on this team would typically be a merit increase or a recognition award (cash or noncash) for performance on the team.

A *project team* is likewise a temporary team, but it meets full time for the life of the project. For example, a team may be formed to develop a new project and then disband when the new product is completed. The pay schemes appropriate for this type of team

include profit sharing, recognition rewards, and stock options. Team members evaluate each other's performance.

A *partnership team* is formed around a joint venture or strategic alliance. Here, profit sharing in the venture is the most common pay structure. Finally, with the *work team*, all individuals work together daily to accomplish their jobs. Here, skill-based pay and gainsharing are the payment schemes of choice, with team members evaluating one another's performance.

## Pay Systems That Reward Both Team and Individual Performance

There are two main theories of how to reward employees. Nancy Katz (Katz, 1998) characterized the theories as two opposing camps. The first camp advocates rewarding individual performance, through plans such as commissions-sales schemes and merit-based-pay. The claim is that this will increase employees' energy, drive, risk taking, and task identification. The disadvantages of rewarding individual performance are that employees will cooperate less, that high performers may be resented by others in the corporation, and that low performers may try to undermine top performers.

The second camp believes that organizations should reward team performance, without regard for individual accomplishment. This

reward system is thought to bring the advantages of increased helping and cooperation, sharing of information and resources, and mutual-respect among employees. The disadvantages of team-based reward schemes are that they create a lack of drive, that low performers are “free riders,” and that high performers may withdraw or become tough cops.

Katz sought to identify reward schemes that achieve the best of both worlds. These hybrid pay systems would reward individual and team performance, promoting excellence at both levels. Katz suggested two possible hybrid reward systems. The first system features a base rate of pay for individual performance that increases when the group reaches a target level of performance. In this reward system, individuals have a clear pay-for-performance incentive, and their rate of pay increases when the group as a whole does well. In the second hybrid, the pay-for-performance rate also increases when a target is reached. Under this reward system, however, every team member must reach a target level of performance before the higher pay rate kicks in. In contrast with the first hybrid, this reward system clearly incentivizes the better performers to aid poorer performers. Only when the poorest performer reaches the target does the higher pay rate kick in.

### *Key Takeaway*

Compensation plans reward employees for contributing to company goals. Pay levels should reflect the value of each type of job to the company's overall success. For some companies, technical jobs are the most vital, whereas for others frontline customer service positions determine the success of the company against its competitors. Pay-for-performance plans tie an individual's pay directly to his or

her ability to meet performance targets. These plans can reward individual performance or team performance or a combination of the two.

## *Exercises*

1. What factors would you consider when setting a pay level for a particular job?
2. What might be the “A” level positions in a bank?
3. If you were running a business decision, would you implement a pay-for-performance scheme? Why or why not?
4. Describe the difference between a base salary, a bonus, and a gainsharing plan.
5. Discuss the advantages and disadvantages of rewarding individual versus team performance.

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## 9.7 Designing a High-Performance Work System

### *Learning Objectives*

1. Define a high-performance work system.
2. Describe the role of technology in HR.
3. Describe the use of HR systems to improve organizational performance.
4. Describe succession planning and its value.

Now it is your turn to design a high-performance work system (HPWS). HPWS is a set of management practices that attempt to create an environment within an organization where the employee has greater involvement and responsibility. Designing a HPWS involves putting all the HR pieces together. A HPWS is all about determining what jobs a company needs done, designing the jobs, identifying and attracting the type of employee needed to fill the job, and then evaluating employee performance and compensating them appropriately so that they stay with the company.

# e-HRM

Figure 9.9



Computers and the Internet are revolutionizing HR practices.

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At the same time, technology is changing the way HR is done. The electronic human resource management (e-HRM) business solution

is based on the idea that information technologies, including the Web, can be designed for human resources professionals and executive managers who need support to manage the workforce, monitor changes, and gather the information needed in decision making. At the same time, e-HRM can enable all employees to participate in the process and keep track of relevant information. For instance, your place of work provides you with a Web site where you can login; get past and current pay information, including tax forms (i.e., 1099, W-2, and so on); manage investments related to your 401(k); or opt for certain medical record-keeping services.

More generally, for example, many administrative tasks are being done online, including:

- providing and describing insurance and other benefit options
- enrolling employees for those benefits
- enrolling employees in training programs
- administering employee surveys to gauge their satisfaction

Many of these tasks are being done by employees themselves, which is referred to as *employee self-service*. With all the information available online, employees can access it themselves when they need it.

Part of an effective HR strategy is using technology to reduce the manual work performance by HR employees. Simple or repetitive tasks can be performed self-service through e-HRM systems that provide employees with information and let them perform their own updates. Typical HR services that can be formed in an e-HRM system include:

- Answer basic compensation questions.
- Look up employee benefits information.
- Process candidate recruitment expenses.
- Receive and scan resumes into recruiting software.
- Enroll employees in training programs.
- Maintain training catalog.

- Administer tuition reimbursement.
- Update personnel files.

Organizations that have invested in e-HRM systems have found that they free up HR professionals to spend more time on the strategic aspects of their job. These strategic roles include employee development, training, and succession planning.

## The Value of High-Performance Work Systems

Employees who are highly involved in conceiving, designing, and implementing workplace processes are more engaged and perform better. For example, a study analyzing 132 U.S. manufacturing firms found that companies using HPWSs had significantly higher labor productivity than their competitors. The key finding was that when employees have the power to make decisions related to their performance, can access information about company costs and revenues, and have the necessary knowledge, training, and development to do their jobs—and are rewarded for their efforts—they are more productive (Konrad, 2006).

For example, Mark Youndt and his colleagues (Youndt, et. al., 1996) demonstrated that productivity rates were significantly higher in manufacturing plants where the HRM strategy focused on enhancing human capital. Delery and Doty found a positive

relationship between firm financial performance and a system of HRM practices (Delery & Doty, 1996). Huselid, Jackson, and Schuler found that increased HRM effectiveness corresponded to an increase in sales per employee, cash flow, and company market value (Huselid, et. al., 1997).

HPWS can be used globally to good result. For example, Fey and colleagues studied 101 foreign-based firms operating in Russia and found significant linkages between HRM practices, such as incentive-based compensation, job security, employee training, and decentralized decision making, and subjective measures of firm performance (Fey, et. al., 2000).

# Improving Organizational Performance

Organizations that want to improve their performance can use a combination of HR systems to get these improvements. For example, performance measurement systems help underperforming companies improve performance. The utility company Arizona Public Service used a performance measurement system to rebound from dismal financial results. The company developed 17 “critical success indicators,” which it measures regularly and benchmarks against the best companies in each category. Of the 17, nine were identified as “major critical success indicators.” They are:

- cost to produce kilowatt hour

- customer satisfaction
- fossil plants availability
- operations and maintenance expenditures
- construction expenditures
- ranking as corporate citizen in Arizona
- safety all-injury incident rate
- nuclear performance
- shareholder value return on assets

Each department sets measurable goals in line with these indicators, and a gainsharing plan rewards employees for meeting the indicators.

In addition, companies can use reward schemes to improve performance. Better-performing firms tend to invest in more sophisticated HRM practices, which further enhances organizational performance (Shih, et. al., 2006). Currently, about 20% of firms link employee compensation to the firm's earnings. They use reward schemes such as employee stock ownership plans, gainsharing, and profit sharing. This trend is increasing.

Researcher Michel Magnan wanted to find out: Is the performance of an organization with a profit-sharing plan better than other firms? And, does adoption of a profit-sharing plan lead to improvement in an organization's performance?

The reasons profit-sharing plans would improve organizational performance go back to employee motivation theory. A profit-sharing plan will likely encourage employees to monitor one another's behavior because "loafers" would erode the rewards for everyone. Moreover, profit sharing should lead to greater information sharing, which increases the productivity and flexibility of the firm.

Magnan studied 294 Canadian credit unions in the same region (controlling for regional and sector-specific economic effects). Of the firms studied, 83 had profit sharing plans that paid the bonus in full at the end of the year. This meant that employees felt the effect of the organizational performance reward immediately, so

it had a stronger motivational effect than a plan that put profits into a retirement account, where the benefit would be delayed (and essentially hidden) until retirement.

Magnan's results showed that firms with profit-sharing plans had better performance on most facets of organizational performance. They had better performance on asset growth, market capitalization, operating costs, losses on loans, and return on assets than firms without profit-sharing plans. The improved performance was especially driven by activities where employee involvement had a quick, predictable effect on firm performance, such as giving loans or controlling costs.

Another interesting finding was that when firms adopted a profit-sharing plan, their organizational performance went up. Profit-sharing plans appear to be a good turnaround tool because the firms that showed the greatest improvement were those that had not been performing well before the profit-sharing plan. Even firms that had good performance before adopting a profit-sharing plan had better performance after the profit-sharing plan (Magnan & St-Ogne, 1998).

## Succession Planning

Succession planning is a process whereby an organization ensures that employees are recruited and developed to fill each key role within the company. In a recent survey, HR executives and non-HR executives were asked to name their top human capital challenge. Nearly one-third of both executive groups cited succession planning (Buhler, 2008), but less than 20% of companies with a



succession plan addressed nonmanagement positions. Slightly more than 40% of firms didn't have a plan in place.

Looking across organizations succession planning takes a number of forms (including no form at all). An absence of succession planning should be a red flag, since the competitive advantage of a growing percentage of firms is predicated on their stock of human capital and ability to manage such capital in the future. One of the overarching themes of becoming better at succession is that effective organizations become much better at developing and promoting talent from within. The figure "Levels of Succession Planning" summarizes the different levels that firms can work toward.

## Levels of Succession Planning

- Level 1: No planning at all.
- Level 2: Simple replacement plan. Typically the organization has only considered what it will do if key individuals leave or become debilitated.
- Level 3: The company extends the replacement plan approach to consider lower-level positions, even including middle managers.

- Level 4: The company goes beyond the replacement plan approach to identify the competencies it will need in the future. Most often, this approach is managed along with a promote-from-within initiative.
- Level 5: In addition to promoting from within, the organization develops the capability to identify and recruit top talent externally. However, the primary source of successors should be from within, unless there are key gaps where the organization does not have key capabilities.

Dow Chemical exemplifies some best practices for succession planning:

- Dow has a comprehensive plan that addresses all levels within the organization, not just executive levels.
- CEO reviews the plan, signaling its importance.
- Managers regularly identify critical roles in the company and the competencies needed for success in those roles.
- Dow uses a nine-box grid for succession planning, plotting employees along the two dimensions of potential and performance.
- High potential employees are recommended for training and development, such as Dow Academy or an MBA.

Interpublic Group, a communications and advertising agency, established a formal review process in 2005 in which the CEOs of each Interpublic business would talk with the CEO about the leaders in their organization. The discussions span the globe because half of the company's employees work outside the United States. A key part of the discussions is to then meet with the individual employees to

tell them about the opportunities available to them. “In the past, what I saw happen was that an employee would want to leave and then all of a sudden they hear about all of the career opportunities available to them,” he says. “Now I want to make sure those discussions are happening before anyone talks about leaving,” said Timothy Sompolski, executive vice president and chief human resources officer at Interpublic Group (Marquez, 2007).

The principles of strategic human resource management and high-performance work systems apply to nonprofit enterprises as well as for-profit companies, and the benefits of good HR practices are just as rewarding. When it comes to succession planning, nonprofits face a particularly difficult challenge of attracting workers to a field known for low pay and long hours. Often, the people attracted to the enterprise are drawn by the cause rather than by their own aspirations for promotion. Thus, identifying and training employees for leadership positions is even more important. What’s more, the talent shortage for nonprofits will be even more acute: A study by the Meyer Foundation and CompassPoint Nonprofit Service found that 75% of nonprofit executive directors plan to leave their jobs by 2011 (Damast, 2008).

### *Key Takeaway*

A high-performance work system unites the social and technical systems (people and technology) and aligns them with company strategy. It ensures that all the interrelated parts of HR are aligned with one another and with company goals. Technology and structure supports employees in their ability to apply their knowledge and skills to executing company strategy. HR decisions, such as the type of

compensation method chosen, improve performance for organizations and enterprises of all types.

## Exercises

1. What are some ways in which HR can improve organizational performance?
2. What is the most important aspect of high performance work systems? Name three benefits of high performance work systems.
3. How does e-HRM help a company?
4. If you were designing your company's succession planning program, what guidelines would you suggest?

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## 9.8 Tying It All Together—Using the HR Balanced Scorecard to Gauge and Manage Human Capital, Including Your Own

### *Learning Objectives*

1. Describe the Balanced Scorecard method and how it can be applied to HR.
2. Discuss what is meant by “human capital.”
3. Understand why metrics are important to improving company performance.
4. Consider how your human capital might be mapped on an HR Balanced Scorecard.

You may already be familiar with the Balanced Scorecard, a tool that helps managers measure what matters to a company. Developed by Robert Kaplan and David Norton, the Balanced Scorecard helps managers define the performance categories that relate to the company's strategy. The managers then translate those categories into metrics and track performance on those metrics. Besides traditional financial measures and quality measures, companies use employee performance measures to track their people's knowledge, skills, and contribution to the company (Kaplan & Norton, 1996).

The employee performance aspects of Balanced Scorecards analyze employee capabilities, satisfaction, retention, and productivity. Companies also track whether employees are motivated (for example, the number of suggestions made and implemented by employees) and whether employee performance goals are aligned with company goals.

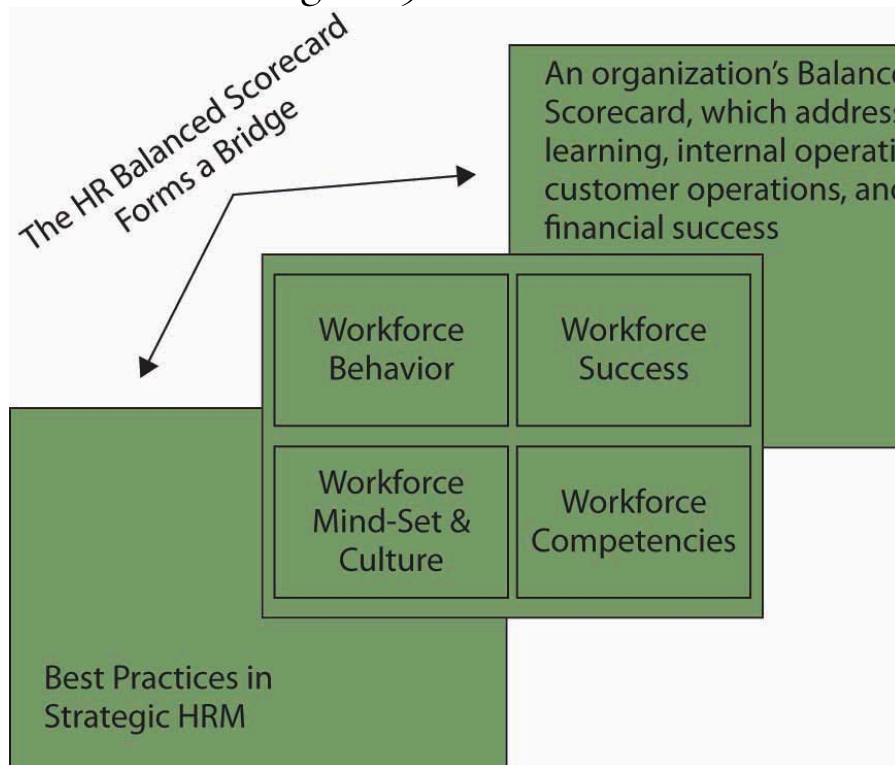
## Applying the Balanced Scorecard Method to HR

Because the Balanced Scorecard focuses on the strategy and metrics of the business, Mark Huselid and his colleagues took the Balanced Scorecard concept a step further and developed the HR and Workforce Scorecard to provide framework specific to HR. According to Huselid, the Workforce Scorecard identifies and measures the behaviors, skills, mind-sets, and results required for the workforce to contribute to the company's success. Specifically, as summarized in the figure, the Workforce Scorecard has four key sequential elements (Huselid, et. al., 2005):

- *Workforce Mind-Set and Culture*: First, does the workforce understand the strategy, embrace it, and does it have the culture needed to support strategy execution?
- *Workforce Competencies*: Second, does the workforce, especially in the strategically important or “A” positions, have the skills it needs to execute strategy? (“A” positions are those job categories most vital to the company's success.)

- *Leadership and Workforce Behaviors*: Third, are the leadership team and workforce consistently behaving in a way that will lead to attaining the company’s key strategic objectives?
- *Workforce Success*: Fourth, has the workforce achieved the key strategic objectives for the business? If the organization can answer “yes” to the first three elements, then the answer should be yes here as well (Huselid, et. al., 2005).

Figure 9.10





The HR Balanced Scorecard bridges HR best practices and the firm's comprehensive Balanced Scorecard.

# Human Capital

Implementing the HR scorecard requires a change in perspective, from seeing people as a cost to seeing people as the company's most important asset to be managed—human capital. According to the Society of Human Resource Management's *Research Quarterly*, "A company's human capital asset is the collective sum of the attributes, life experience, knowledge, inventiveness, energy and enthusiasm that its people choose to invest in their work (Weatherly, 2003)." As you can tell by the definition, such an asset is difficult to measure because it is intangible, and factors like "inventiveness" are subjective and open to interpretation. The challenge for managers, then, is to develop measurement systems that are more rigorous and provide a frame of reference. The metrics can range from activity-based (transactional) metrics to strategic ones. Transactional metrics are the easiest to measure and include counting the number of new people hired, fired, transferred, and promoted. The measures associated with these include the cost of each new hire, the length of time and cost associated with transferring an employee, and so forth. Typical ratios associated with transactional metrics include the training cost factor (total training cost divided by the employees trained) and training cost percentage (total training cost divided by operating expense) (Weatherly, 2003). But, these transactional measures don't get at the strategic issues, namely, whether the right employees are being

trained and whether they are remembering and using what they learned. Measuring training effectiveness requires not only devising metrics but actually changing the nature of the training.

The Bank of Montreal has taken this step. “What we’re trying to do at the Bank of Montreal is to build learning into what it is that people are doing,” said Jim Rush of the Bank of Montreal’s Institute for Learning. “The difficulty with training as we once conceived it is that you’re taken off your job, you’re taken out of context, you’re taken away from those things that you’re currently working on, and you go through some kind of training. And then you’ve got to come back and begin to apply that. Well, you walk back to that environment and it hasn’t changed. It’s not supportive or conducive to you behaving in a different kind of way, so you revert back to the way you were, very naturally.” To overcome this, the bank conducts training such that teams bring in specific tasks on which they are working, so that they learn by doing. This removes the gap between learning in one context and applying it in another. The bank then looks at performance indices directly related to the bottom line. “If we take an entire business unit through a program designed to help them learn how to increase the market share of a particular product, we can look at market share and see if it improved after the training,” Rush said (Rush, 1995).

Motorola has adopted a similar approach, using action learning in its Senior Executives Program. Action learning teams are assigned a specific project by Motorola’s CEO and are responsible for implementing the solutions they design. This approach not only educates the team members but also lets them implement the ideas, so they’re in a position to influence the organization. In this way, the training seamlessly supports Motorola’s goals.

As we can see in these examples, organizations need employees to apply the knowledge they have to activities that add value to the company. In planning and applying human capital measures, managers should use both retrospective (lagging) and prospective (leading) indicators. Lagging indicators are those that tell the company what it has accomplished (such as the Bank of Montreal’s

documenting the effect that training had on a business unit's performance). Leading indicators are forecasts that help an organization see where it is headed. Leading indicators include employee learning and growth indices (Weatherly, 2003).

## The Payoff

Given the complexity of what we've just discussed, some managers may be inclined to ask, "Why bother doing all this?" Research by John Lingle and William Schiemann provides a clear answer: Companies that make a concerted effort to measure intangibles such as employee performance, innovation, and change in addition to measuring financial measures perform better. Lingle and Schiemann examined how executives measured six strategic performance areas: financial performance, operating efficiency, customer satisfaction, employee performance, innovation and change, and community/environment issues. To evaluate how carefully the measures were tracked, the researchers asked the executives, "How highly do you value the information in each strategic performance area?" and "Would you bet your job on the quality of the information on each of these areas?" The researchers found that the companies that paid the closest attention to the metrics and had the most credible information were the ones identified as industry leaders over the previous three years (74% of measurement-managed companies compared with 44% of others) and reported financial performance in the top one-third of their industry (83% compared with 52%).

The scorecard is vital because most organizations have much

better control and accountability over their raw materials than they do over their workforce. For example, a retailer can quickly identify the source of a bad product, but the same retailer can't identify a poor-quality manager whose negative attitude is poisoning morale and strategic execution (Becker & Huselid, 2006).

## Applying the Balanced Scorecard Method to Your Human Capital

Let's translate the HR scorecard to your own Balanced Scorecard of human capital. As a reminder, the idea behind the HR scorecard is that if developmental attention is given to each area, then the organization will be more likely to be successful. In this case, however, you use the scorecard to better understand why you may or may not be effective in your current work setting. Your scorecard will comprise four sets of answers and activities.

1. **What is your mind-set and values?** Do you understand the organization's strategy and embrace it, and do you know what to do in order to implement the strategy? If you answered "no" to either of these questions, then you should consider investing some time in learning about your firm's strategy. For the second half of this question, you may need additional coursework or mentoring to understand what it takes to move the firm's strategy forward.

2. **What are your work-related competencies?** Do you have the skills and abilities to get your job done? If you have aspirations to key positions in the organization, do you have the skills and abilities for those higher roles?
3. **What are the leadership and workforce behaviors?** If you are not currently in a leadership position, do you know how consistently your leaders are behaving with regard to the achievement of strategic objectives? If you are one of the leaders, are you behaving strategically?
4. **Your success?** Can you tie your mind-set, values, competencies, and behaviors to the organization's performance and success?

This simple scorecard assessment will help you understand why your human capital is helping the organization or needs additional development itself. With such an assessment in hand, you can act to help the firm succeed and identify priority areas for personal growth, learning, and development.

### *Key Takeaway*

The Balanced Scorecard, when applied to HR, helps managers align all HR activities with the company's strategic goals. Assigning metrics to the activities lets managers track progress on goals and ensure that they are working toward strategic objectives. It adds rigor and lets managers quickly identify gaps. Companies that measure intangibles such as employee performance, innovation, and change perform better financially than companies that don't use such metrics. Rather than investing equally in training for all jobs, a company should invest disproportionately more in developing the people in the key

“strategic” (“A”) jobs of the company on which the company’s success is most dependent.

## *Exercises*

1. Define the Balanced Scorecard method.
2. List the elements of a Workforce Scorecard.
3. Discuss how human capital can be managed like a strategic asset.
4. Why is it important to align HR metrics with company strategy?
5. What kind of metrics would be most useful for HR to track?

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PART X

# CHAPTER 10: SOCIAL NETWORKS

10.1 Social Networks

10.2 Case in Point: Networking Powers Relationships

10.3 An Introduction to the Lexicon of Social Networks

10.4 How Managers Can Use Social Networks to Create Value

10.5 Ethical Considerations With Social Network Analysis

10.6 Personal, Operational, and Strategic Networks

10.7 Mapping and Your Own Social Network



# 10.1 Social Networks

Figure 10.1



Social networks are the patterned structure of relationships among people.

Chris Potter – [3D Social Networking](#) – CC BY 2.0.

## *What's in It for Me?*

Reading this chapter will help you do the following:

1. Understand the social network vocabulary.
2. Know why social networks and networking are valuable.
3. Know some of the ethical considerations related to social network analysis.
4. Understand the difference between personal, operational, and strategic social networks.
5. Map your own social network and understand its implications.

Most management textbooks do not cover the subject of social networks. This is an unfortunate oversight. Social networks can be considered “the invisible organization”—they are the pathways through which communication and resources flow and how work actually gets done. We include this chapter on social networks in the organizing section of the book because, like organizational design, the management of social networks is important in the planning-organizing-leading-controlling (P-O-L-C) framework. An organization chart might communicate who reports to whom, but it is ultimately the internal (within organization) and external (ties between members of the organization and people outside the organization such as suppliers or customers) social networks that really explain productivity (or impediments to productivity).

Figure 10.2 The P-O-L-C Framework

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

You are probably already active in social networks through such Web communities as MySpace, Facebook, and LinkedIn. However, these sites are really only the tip of the iceberg when it comes to the role of social networks in management. Networks provide managers with three unique advantages: (1) access to information and knowledge, (2) access to diverse skill sets, and (3) power. While managers see these advantages at work every day, they might not pause to consider how their networks regulate them. In this chapter, you will learn about the role and importance of social networks, and social network analysis, in the organizing facet of the P-O-L-C framework. You will also have an opportunity to map and evaluate your own social network, and answer questions about its effectiveness for you personally and professionally.

## 10.2 Case in Point: Networking Powers Relationships

Figure 10.3



Marjan Lazarevski – [Talking on the Phone](#) – CC BY-ND 2.0.

Networking has the potential to open doors and create possibilities for jobs and partnerships. Networking establishes connections between individuals and access to information that one might not normally have access to. Reaching out to strangers can be an intimidating and nerve-racking experience. In business, the more central you are, the more power you have. Creating connections and ties to other people affords you the opportunity for power and the ability to more closely control your future, so while at times networking might feel awkward and uncomfortable, it is a necessary and important part of establishing and maintaining a career.

Online social networking sites play an important role in this networking process for individuals both professionally and personally. With 1,200 employees in 2010, Facebook has 350 million users around the world, and LinkedIn has over 60 million members in over 200 countries. A new member joins LinkedIn every second, and about half of the members are outside the United States. These online sites have created new opportunities for networking and allow individuals to branch out beyond their normal world of industry, school, and business. The key is to avoid costly missteps as employers have begun to search online for information about prospective and current employees. In 2009, 8% of companies reported that they had fired an employee for misuse of social media.

Many of these online sites have become a tool for business. For example, LinkedIn targets working professionals and provides them a way to maintain lists of

business connections and to use those connections to gain introduction to people using mutual contacts. Unlike other social networking sites, LinkedIn is almost entirely used by professionals. The power of social networking flows in both directions. Employers can screen applicants through their online accounts and recruiters more than ever are using these sites to view background information, individual skill sets, and employment history, which can be cross-referenced with submitted applications. Job seekers can review the profiles of those at top management firms and search for mutual contacts. LinkedIn also provides statistics about firms, which can be useful information for individuals looking at potential employers.

Networking is about building your brand and managing relationships. Using social networks as a vehicle to market one's self and make professional connections is becoming increasingly common, as well as using loose ties or connections through others to open doors and land jobs. In an increasingly high-tech and digital world, it is important to be aware and conscience of the digital footprint that we create. But with careful cultivation these online networks can present many opportunities.

Case written by based on information from Hof, R. (2008, October 28). Facebook in a suit: LinkedIn launches applications platform. *BusinessWeek*. Retrieved March 23, 2010, from [http://www.businessweek.com/the\\_thread/techbeat/archives/2008/10/linkedin\\_launch.html](http://www.businessweek.com/the_thread/techbeat/archives/2008/10/linkedin_launch.html); Horswill, A. (2009). How to get a job online using social networking. *The Courier Mail*. Retrieved March 23, 2010, from LexisNexis Academic database; Lavenda, D. (2010, March 10). 10 tips for safe and effective social networking.



Fast Company. Retrieved March 23, 2010, from <http://www.fastcompany.com/1577857/10-tips-for-safe-and-effective-social-networking>; How to use social networking sites for marketing and PR. (2008, December 24). AllBusiness. Retrieved April 23, 2010, from <http://www.allbusiness.com/marketing-advertising/public-relations/11674037-1.html>; Ostrow, A. (2009, August). Facebook fired: 8% of US companies have sacked social media miscreants. Mashable. Retrieved March 30, 2010, from <http://mashable.com/2009/08/10/social-media-misuse>.

## *Discussion Questions*

1. If social networks are an essential element of the organizing facet of the P-O-L-C framework, should employers track the use of LinkedIn or Facebook among their employees? Why or why not?
2. How is online networking different from or similar to in-person networking? Please describe your experience with both.
3. What are the downfalls and benefits of social networking?
4. In what ways are indirect ties as powerful and important as direct ties?
5. To what extent have you built your own brand? Is this something that you have ever considered before?

## 10.3 An Introduction to the Lexicon of Social Networks

### *Learning Objectives*

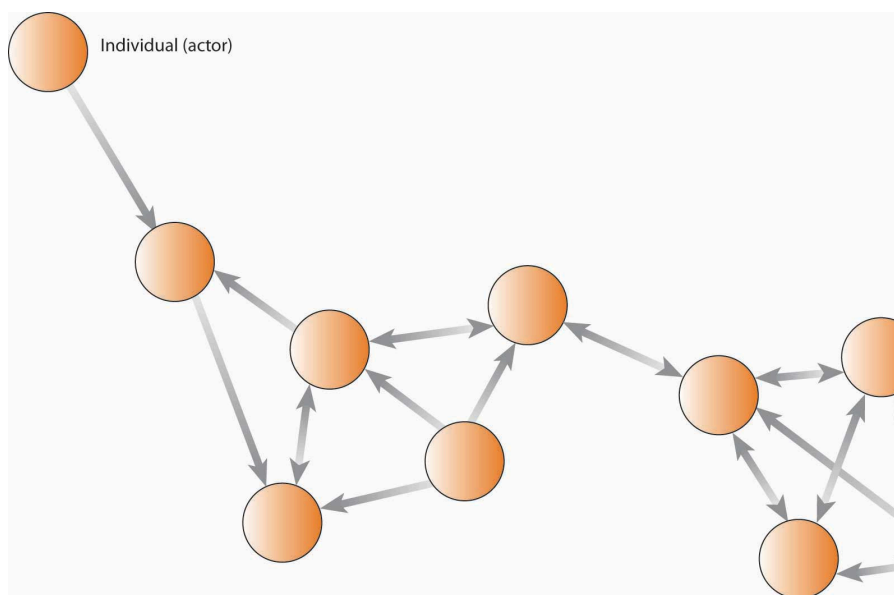
1. Be able to define a social network.
2. Understand the key dimensions of social networks.
3. Identify various types of social networks.

This section draws on extensive social network research to help you understand the managerial implications of that body of knowledge. Social networks often complement or compete with such aspects of organizations as formal organization structure (think “org chart”), work processes (think “job description”), human resource practices, leadership style, and organization culture. This is particularly problematic in knowledge-intensive settings where management is counting on collaboration among employees with different types of expertise. People rely heavily on their networks of relationships to find information and solve problems—one of the most consistent findings in the social science literature is that *who* you know often has a great deal to do with *what* you come to know (Kilduff & Tsai, 2004). Yet both practical experience and scholarly research indicate significant difficulty in getting people with different expertise, backgrounds, and problem-solving styles to integrate their unique perspectives effectively.<sup>1</sup> From a manager’s standpoint, simply moving boxes on an organizational chart is not sufficient to ensure effective collaboration among workers.

# What Is a Social Network?

If you were asked for a definition of a social network, your intuition would probably provide you with a pretty close answer. A social network can be characterized as a patterned set of relationships between two or more people—or, as they are called in the social science literature, actors. It can be depicted in a sociogram, as shown in the following figure. The term “actors” is broader, as it includes all possible types of information/knowledge processing entities: the individuals, groups, organizations, or supraorganizations that constitute the network (Granovetter, 1985; Granovetter, 1995). For instance, all of the people named in the figure are actors, but you could also consider each work group or department as an actor if you were concerned with the interaction among these groups rather than with the interaction within the groups or among individuals. The characteristics of a social network also are the determinants of social capital, that is, the resources—such as ideas, information, money, trust—available in and through personal and business networks. You can have social capital, as can organizations. However, since social capital is based on relationships, no single person can claim ownership of it, but it is important and manageable.

## Figure 10.4 Sociogram: A Simple Social Network



## Social Network Analysis and the Quality of Work Interactions

The mapping and measuring of relationships and flows among people, groups, organizations, computers, Web sites, and other actors is called social network analysis (SNA), which we will discuss in greater detail later in the chapter. Each connection, or

relationship, between actors is known as a network tie, while each actor, or point on the network, is referred to as a node. In the previous figure, Thomas is a node and his connections to Albert, Eric, Martha, and others are network ties. Direct ties are those in which a single link spans two actors; indirect ties are where connections exist between actors, but only through other actors (hence, *indirect ties*). You can see that Thomas has four *direct ties* and is indirectly tied to everyone in the network. Conceptually, you probably have *indirect ties* to everyone on the planet but that does not necessarily mean they come to mind as part of your social network.

## Figure 10.5 Example of a Social Network Based on Information Ties

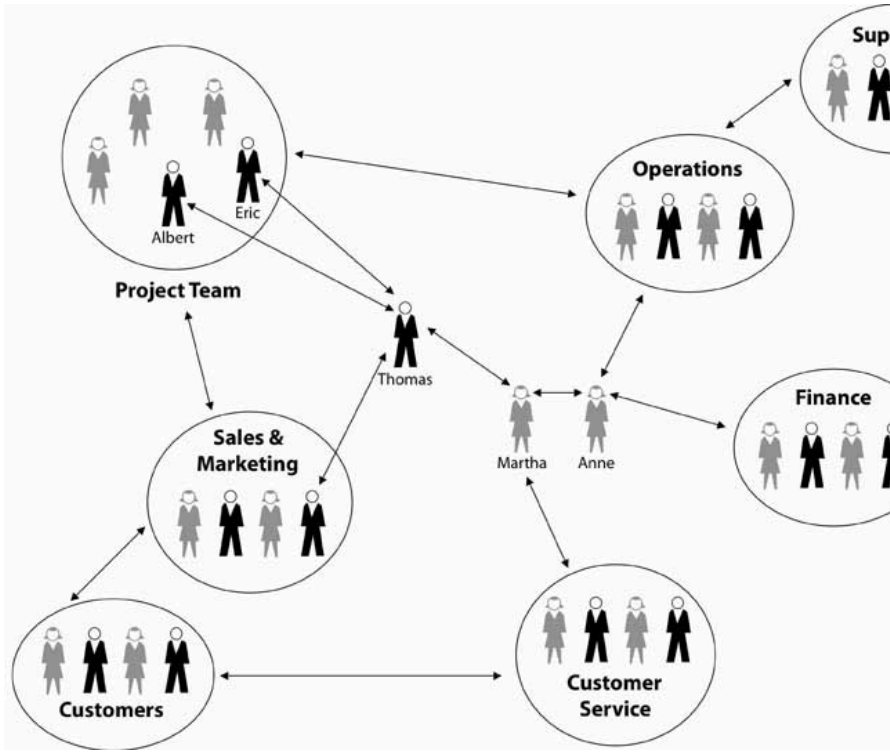


Figure 10.6



Actor Kevin Bacon founded [sixdegrees.org](http://sixdegrees.org) to help charities network and share resources.

Joan Garvin – [Kevinbacongfdl](#) – CC BY-SA 2.5.

Network size would be the number of actors. Though you might be interested in the count of all network members, you also might want to know how many people are one, two, or three links away. Long before computer networking was invented, psychologists Jeffrey Travers and Stanley Milgram conducted a low-tech experiment that looked directly at this question (Travers & Milgram, 1969). They asked how many links might be necessary to get an envelope from one randomly chosen person to another randomly chosen person in the United States. They found that, on average, there were six links—or “degrees of separation”—between any two people randomly drawn from the U.S. population (at the time) of 250 million. Flipping the numbers around, Travers and Milgram then

estimated that each individual had a potential network of 3,000 to 10,000 people. You may be familiar with this larger body of work in terms of “how many degrees of separation are you from Kevin Bacon?” or the notion of the “six degrees of separation.”

## Social Network Characteristics

The extent to which a given actor is in the middle of the network is referred to as centrality (i.e., network centrality), though the definition of “middle” can vary from who has the most ties, to who is the unique connection between two other groups. Centrality is good because it puts the actor in a position to gather information, and to serve as broker between the parties that are connected via that actor.

Another basic network indicator is density, which essentially reflects how many people in a network are connected (usually directly) to each other. You can imagine that there are a number of possible network configurations based simply on permutations of network size, centrality, and density. For instance, you can have a large or tiny network, be central or peripheral in the network, and have a dense or sprawling network. Each of these structures has implications for how the network might serve its various actors.

The tie between actors can be directional or bidirectional (i.e., reciprocal flows between actors); similarly, a network can be



described as social, personal, professional, informational, and so on, depending on what is of most interest.

## A Sampling of Social Network Types

As a manager, you might be interested in your employees' (1) communication network, (2) information network, (3) problem-solving network, (4) knowledge network, or (5) access network (Cross, et. al., 2002). A communication network is the informal structure of an organization as represented in ongoing patterns of interaction, either in general or with respect to a given issue. For instance, people on the same office floor may periodically congregate in the break room or by the soda machine and engage in informal communication. For this reason, some descriptions of social networks focus on the *informal network*. That is, the pattern of interactions among employees that aren't a direct consequence of the organization chart, job descriptions, and so on.

An information network shows who goes to whom for advice on work-related matters. For example, if you have a question about filling out a form, or answering a customer's question, who do you regularly seek out for answers? A problem-solving network indicates who goes to whom to engage in dialogue that helps people solve problems at work. For instance, "whenever this machine breaks down I know I can turn to Pat for help." A knowledge network

captures who is aware of whose knowledge and skills, and an access network shows who has access to whose knowledge and expertise.

The example with Pat is also a knowledge network because it appears that you understand that Pat has the needed knowledge, and there is no barrier impeding your access to Pat. However, if the organization had rules telling you that you needed to talk to Pat's boss before getting assistance from Pat, then the knowledge network and access network would look different. You can imagine that each of these types of networks might reveal a different structure, depending on the question—for example, the linkages would be different across iterations of the figure. You can see that information is flowing back and forth between different actors in the network. However, it does not appear that information is flowing directly between all network members—for instance, the sales and marketing, finance, and operations staff do not communicate directly with each other. However, if you were to combine the staff from those functions in the same office space, you would likely create a new communication network, which in turn could change the information ties of all the members.

More recent work in social network research has also considered the way that individuals interact, as well as their potential impact on network relationships (Bavelas, 1950; Leavitt, 1951; Shaw, 1964). Five key dimensions of work quality can also be taken into account with social networks: (1) activity, (2) control, (3) access, (4) influence, and (5) power. Activity gauges how active a person is in the network. For example, an individual may be in the network, but actually do little to affect what is going on. Control gauges how much control a person has over the flow of information. Centrality is obviously one indicator of control, but there may be other determinants of control such as intelligence, personality, or even a particular skill set. In highly technical fields, for example, one individual (a node) can make a big difference on information flow, even if he or she is situated in a fairly open and balanced network. Access tells you how easily a person in the network can get the resources that he or she needs to be successful in the organization. How many steps, for

instance, are they away from those individuals or units that are most instrumental for their success? Influence and power are different but related characteristics. Influence shows how much *potential* influence a person wields in the network, while power tells you how able they are to get things done. You may be interested in other dimensions of work quality, so feel free to experiment with them in SNA.

### *Key Takeaway*

Social networks are the invisible structure in organizations—they capture the actual pathways of how information flows and how work is done. Network size, centrality, and density were identified as key features of social networks, and you have a general understanding of at least five types of social networks: communication, information, problem solving, knowledge, and access.

### *Exercises*

1. What is a social network?
2. What is social network analysis?
3. Why is network size important?
4. Why is network centrality important?
5. Why is network density important?
6. What are some key types of social networks?

<sup>1</sup>It is one problem to learn or act on knowledge with others who think like you (such as in a community of practice); however, it is an entirely different problem to do this in diverse social contexts, such as cross-functional teams, where people often do not share a common vision, language, metrics of performance, or even understanding of the problem. For example, sociologists have demonstrated how correct information can have little or no effect on critical decision processes. Vaughn, D. (1996). *The Challenger launch decision: Risky technology, culture and deviance at NASA*. Chicago: University of Chicago Press. Further, organizational theorists have shown that a person's knowledge can be role constrained. March, J., & Olsen, J. (1975). The uncertainty of the past: Organizational learning under ambiguity. *European Journal of Political Research*, 3, 147–171.

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## 10.4 How Managers Can Use Social Networks to Create Value

### *Learning Objectives*

1. Understand the roles of reciprocity, exchange, and similarity.
2. See how social networks create value in career management.
3. See how social networks create value in and across organizations.

You probably have an intuitive sense of how and why social networks are valuable for you, personally and professionally. The successful 2008 U.S. presidential campaign of Barack Obama provides a dramatic example of how individuals can benefit when they understand and apply the principles and power of social networking (Cox, 2008). In this section, we discuss three fundamental principles of social network theory, then help you see how social networks create value in your career and within and across organizations.

Figure 10.7



The principles of reciprocity, exchange, and similarity underlie the way managers create value through social networks.

PublicDomainPictures – [Pixabay](#) – CC0 public domain.

## Reciprocity, Exchange, and Similarity

Across all social networks, performance depends on the degree to which three fundamental principles are accounted for (Kilduff &

Tsai, 2004). The first is the principle of reciprocity, which simply refers to the degree to which you trade favors with others. With the principle of reciprocity, managers have the ability to get things done by providing services to others in exchange for the services they require. For instance, you are more likely to get assistance with a problem from a colleague at work when you have helped him or her out in the past. Although the quid pro quo may not be immediate, over time managers will receive only in proportion to what they give. Unless the exchanges are roughly equivalent over time, hard feelings or distrust will result. In organizations, few transactions are one-shot deals. Most are ongoing trades of “favors.” Therefore, two outcomes are important: success in achieving the objective and success in improving the relationship such that the next exchange will be more productive.

The second principle is the principle of exchange. Like the reciprocity principle, it refers to “trading favors,” but it is different in this way: the principle of exchange proposes that there may be greater opportunity for trading favors when the actors are different from one another. In fact, according to network theory, “difference” is what makes network ties useful in that such difference increases the likelihood that each party brings a complementary resource to the table. Going back to our example where you sought out assistance from a colleague, you probably needed that assistance because that person brought a different skill set, knowledge, or other resources to bear on the problem. That is, since you were different, the value of exchange was greater.

The third principle is the principle of similarity. Psychologists studying human behavior have observed that relationships, and therefore network ties, tend to develop spontaneously between people with common backgrounds, values, and interests. Similarity, to the extent that your network is composed only of like-minded folks, also makes it more likely that an individual may be dependent on a handful of people with common interests.

Why is it important to understand these three principles? As a manager, you will find your network useful to the extent that you



can balance the effects of the three principles. Because of similarity, it is easier to build networks with those with whom you have various things in common, though this similarity makes the network less useful if you need new ideas or other resources not in the current group. A critical mistake is to become overly dependent on one person or on only a few network relationships. Not only can those relationships sour but also the manager's usefulness to others depends critically on his or her other connections. Those people most likely to be attractive potential protégés, for example, will also be likely to have alternative contacts and sponsors available to them.

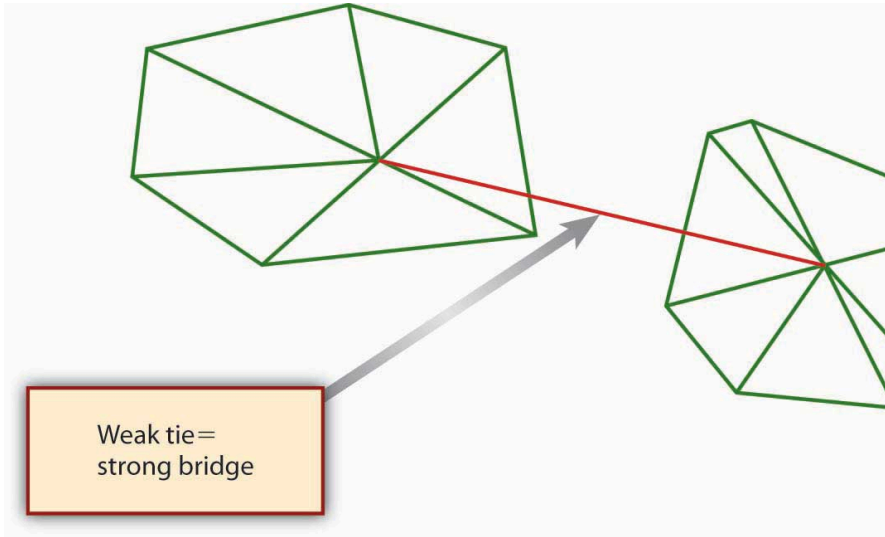
Similarity also means that you have to work harder to build strong *exchange* networks, since their formation is not spontaneous. Most personal networks are highly clustered—that is, your friends are likely to be friends with one another as well. And, if you made those friends by introducing yourself to them, the chances are high that their experiences and perspectives echo your own. Because ideas generated within this type of network circulate among the same people with shared views, a potential winner can wither away and die if no one in the group has what it takes to bring that idea to fruition. But what if someone within that cluster knows someone else who belongs to a whole different group? That connection, formed by an information broker, can expose your idea to a new world, filled with fresh opportunities for success. Diversity makes the difference.

Finally, for reciprocity to work, you have to be willing and able to trade or reciprocate favors, and this means that you might need access to other people or resources outside the current network. For example, you may have to build relationships with other individuals such that you can use them to help you contribute to your existing network ties.

# Social Networks and Careers

We owe our knowledge about the relationship between social network characteristics and finding a job to Stanford sociologist Mark Granovetter. In a groundbreaking study, Granovetter found that job seekers are more likely to find a job through weak ties than through strong ties (Granovetter, 1974). He demonstrated that while job hunters use social connections to find work, they don't use close friends. Rather, survey respondents said they found jobs through acquaintances: old college friends, former colleagues, people they saw only occasionally or just happened to run into at the right moment. New information, about jobs or anything else, rarely comes from your close friends, because they tend to know the same things and people you do. Strong ties, as you might expect, exist among individuals who know one another well and engage in relatively frequent, ongoing resource exchanges. Weak ties, in contrast, exist among individuals who know one another, at least by reputation, but who do not engage in a regular exchange of resources. In fact, Granovetter showed that those who relied on weak ties to get a job fared better in the market in terms of higher pay, higher occupational status, greater job satisfaction, and longer job tenure. While much in the world has changed since Granovetter's 1974 research, subsequent studies continue to affirm his basic findings on the consequences of social network structure (Goleman, 2006). As you might expect, for weak ties to be effective though, there must be some basis for affinity between the indirectly connected individuals, but this affinity can simply be having the same birth month or high school or college alma mater.

## Figure 10.8 The Value of Weak Ties



The value of weak ties is highly counterintuitive; we tend to think of relationships being more valuable when we have strong ties to others. However, if you think about it, the value of a weak tie lies in the fact that it is typically a bridging tie, that is, a tie that provides nonredundant information and resources. In the case of a job search, the weak tie serves as a strong bridge. “Social Networking as a Career-Building Strategy” suggests some personal strategies you might consider with your own social networks.

# Social Networking as a Career-Building Strategy

Penelope Trunk, author of “The Brazen Careerist” column and blog ([blog.penelopetrunk.com](http://blog.penelopetrunk.com)), views job hunting not as an event but as a lifestyle. She advises that in today’s business environment, people change jobs so often that they need to keep their eye on the market even if they just started a new job. In her view, “the people who control their destiny most effectively leave their job when they find a better one, not when they are tossed out because of layoffs or reorganizations.” This also means that social networking should be a central element in any job-search strategy. And because many jobs are filled by knowing someone who knows about an open position, Trunk argues that it’s more important to network than it is to read the want ads. Trunk evokes the principle of reciprocity when she says, “building a network is adding value to lots of peoples’ lives so that they, in turn, will want to add value to yours.” Another useful strategy is to network proactively rather than reacting to concerns about your present job or news of a possible opening. By being proactive, you will increase your chances of being in the right place at the right time.

Career networking opportunities are plentiful; regardless of where you live, you can use the Internet to read blogs, subscribe to e-mail newsletters, and make friends on social networking sites. When you consider the principle of exchange, you realize that your networking possibilities are not limited to people in your chosen field—you can actually gain more by networking with those in related fields, or even in jobs far removed from yours. With the exchange principle in mind, even residents of sparsely populated rural areas can network with their neighbors a few miles down the road.

Adapted from Trunk, P. (2008, March 1). Take control of your career destiny. *Wisconsin State Journal*, B1.

## Use LinkedIn to Find a Job—or Have a Job Find You

LinkedIn (<http://www.Linkedin.com>) is the largest online

network of experienced professionals from around the world, representing 150 industries. Other business networking sites include Plaxo.com, Ryze.com, and Xing.com (primarily Europe and China). Here are eight effective networking job-hunting tactics to employ with LinkedIn (or with any networking site):

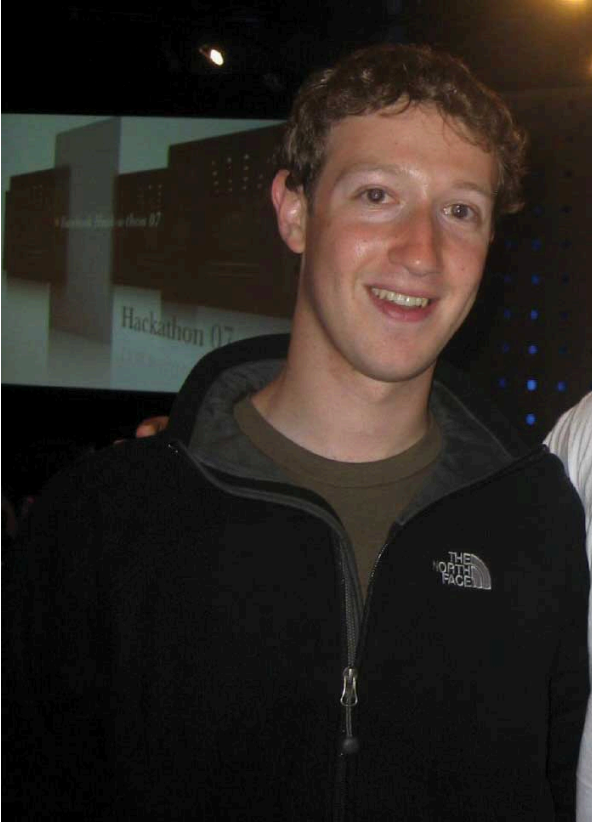
- *Create a Profile.* Create a detailed profile on LinkedIn, including employment (current and past), education, industry, and Web sites.
- *Consider a Photo.* You can add a photo (a headshot is recommended or upload a larger photo and edit it) to your LinkedIn profile. Note that it must be a small photo—no larger than 80 × 80 pixels.
- *Keywords and Skills.* Include all your resume keywords and skills in your profile, so your profile will be found.
- *Build Your Network.* Connect with other members and build your network. The more connections you have, the more opportunities you have, with one caveat, “Connect to people you know and trust or have a business relationship with, no need to go crazy and connect with everyone.”
- *Get Recommendations.* Recommendations from people you have worked with carry a lot of weight.
- *Search Jobs.* Use the job search section to find job listings.
- *Use Answers.* The Answers section of LinkedIn is a good way to increase your visibility. Respond to questions, and ask a question if you need information or assistance.
- *Stay Connected.* Use LinkedIn Mobile (m.linkedin.com) to view profiles, invite new

connections, and access to LinkedIn Answers from your phone.

## But No More Than 150 Ties!

It is important to note here a factor called Dunbar's number. That is, there is some natural upper limit to the size of network you can effectively maintain, even with online tools like Facebook and LinkedIn. The existence of an upper boundary makes sense if you think about it—each contact you add to your network will likely require some amount of time to sustain. In 1993, Oxford anthropologist Robin Dunbar theorized that “this limit is a direct function of relative neocortex size [your brain's center of higher brain functions], and that this in turn limits group size...the limit imposed by neocortical processing capacity is simply on the number of individuals with whom a stable inter-personal relationship can be maintained (Bialik, 2007).” On the periphery, the number also includes past colleagues such as high school friends with whom a person would want to get reacquainted if they met again.

Figure 10.9



Mark Zuckerberg, cofounder of Facebook, helped to bring social networking to 90 million users.

Joe Goldberg – [Zuckerberg2](#) – CC BY-SA 2.0.



# Making Invisible Work Visible

In 2002, organizations researchers Rob Cross, Steve Borghatti, and Andrew Parker published the results of their study of the social networking characteristics of 23 *Fortune* 500 firms (Cross, et. al., 2002). These researchers were concerned that traditional analysis of organizational structure might miss the true way that critical work was being done in modern firms—that is, they theorized that social networks, and not the structure presented on the organization chart, might be a better indicator of the flow of knowledge, information, and other vital strategic resources in the organization. One goal of their research was to better define scenarios where conducting a social network analysis would likely yield sufficient benefit to justify the investment of time and energy on the part of the organization.

Cross and colleagues found that SNA was particularly valuable as a diagnostic tool for managers attempting to promote collaboration and knowledge sharing in important networks. Specifically, they found SNA uniquely effective in:

- Promoting effective collaboration within a strategically important group.
- Supporting critical junctures in networks that cross functional, hierarchical, or geographic boundaries.
- Ensuring integration within groups following strategic restructuring initiatives.

# Connect and Develop

Consumer product giant Procter & Gamble (P&G) pioneered the idea of *connect and develop*, which refers to developing new products and services through a vast social network spanning parts of P&G and many other external organizations. Like many companies, P&G historically relied on internal capabilities and those of a network of trusted suppliers to invent, develop, and deliver new products and services to the market. It did not actively seek to connect with potential external partners. Similarly, the P&G products, technologies and know-how it developed were used almost solely for the manufacture and sale of P&G's core products. Beyond this, P&G seldom licensed them to other companies.

However, around 2003 P&G woke up to the fact that, in the areas in which it does business, there are millions of scientists, engineers, and other companies globally. Why not collaborate with them? P&G now embraces open innovation, and it calls this approach “Connect + Develop.” It even has a Web site with Connect + Develop as its address (<http://www.pgconnectdevelop.com>). This open innovation network at P&G works both ways—inbound and outbound—and encompasses everything from trademarks to packaging, marketing models to engineering, and business services to design.

On the inbound side, P&G is aggressively looking for solutions for its needs, but also will consider any innovation—packaging, design, marketing models, research methods, engineering, and technology—that would improve its products and services. On the outbound side, P&G has a number of assets available for license: trademarks, technologies, engineering solutions, business services, market research methods and models, and more.

As of 2005, P&G's Connect + Develop strategy had already resulted in more than 1,000 active agreements. Types of innovations vary widely, as do the sources and business models. P&G is

interested in all types of high-quality, on-strategy business partners, from individual inventors or entrepreneurs to smaller companies and those listed in the FORTUNE 500—even competitors. Inbound or out, know-how or new products, examples of success are as diverse as P&G's product categories. Some of these stories are shown in “P&G Connect + Develop Success Stories.”

## P&G Connect + Develop Success Stories

Bringing Technology Into P&G

Olay Regenerist

How a small French company became part of P&G  
Beauty's \$2 billion brand

A few years ago, the folks in P&G's skin care organization were looking both internally and externally for antiwrinkle technology options for next-generation Olay products. At a technical conference in Europe, P&G first learned of a new peptide technology that wound up being a key component used in the blockbuster product, Olay Regenerist.

The technology was developed by a small cosmetics company in France. They not only developed the peptide

but also the in vitro and clinical data that convinced P&G to evaluate this material. After they shared some of their work at a conference attended by P&G's skin-care researchers, they accepted an invitation for their technologists to visit P&G and present their entire set of data on the antiwrinkle effects of the new peptide. This company now continues to collaborate with P&G on new technology upstream identification and further upstream P&G projects.

#### Taking Technology Out of P&G

##### Calsura

Not all calcium is created equal.

When P&G was in the juice business, it discovered Calsura, a more absorbable calcium that helps build stronger bones faster, and keeps them stronger for life. The addition of Calsura calcium makes any food or drink a great source of the daily calcium needed for building stronger bones faster in kids, and keeping bones stronger throughout adulthood; Calsura is proven to be 30% more absorbable than regular calcium. Today, P&G licenses the Calsura technology to several companies.

#### University Collaboration

##### University of Cincinnati Live Well Collaborative

Collaborating with a university in a new way

P&G has partnered with the prestigious design school at the University of Cincinnati to develop products specifically for consumers over age 50. Using design labs, university students and P&G researchers collaborate to study the unique needs of the over-50 consumer. The goal is to develop and commercialize products that are designed for this consumer bracket.

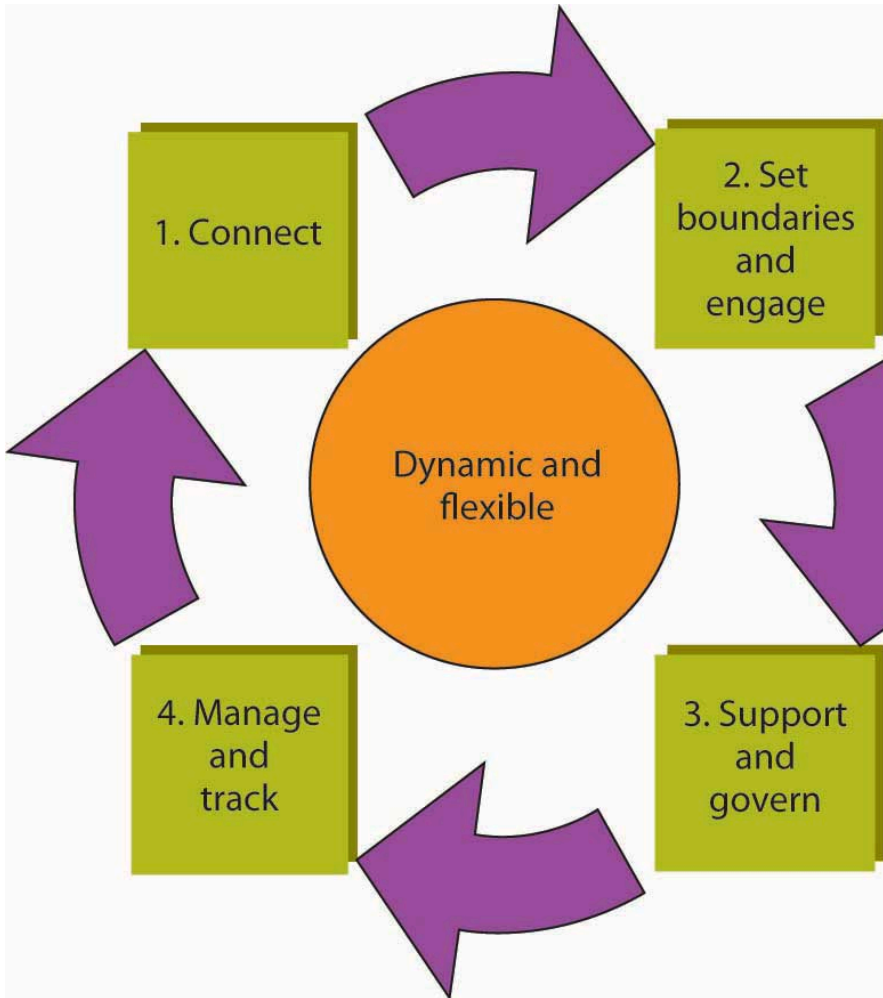
Adapted from <http://www.pg.com> (retrieved June 4, 2008).

## The Innovation Network

Strategy consultant McKinsey & Company points to recent academic research that finds differences in individual creativity and intelligence matter far less for organizational innovation than connections and networks. That is, networked employees can realize their innovations and make them catch on more quickly than nonnetworked employees can (Fleming & Marx, 2006).

On the basis of what was found by Cross and colleagues across many large firms, within P&G in particular, and in their own research, McKinsey has observed four important steps in the innovation network process.<sup>1</sup> These four critical steps in designing, implementing, and managing an innovation network are summarized in the following figure.

Figure 10.10 Managing the Innovation Network



Adapted from <http://www.mckinseyquarterly.com> (retrieved June 4, 2008).

The first step, *connect*, involves the identification of key people in the organization with an innovation mind-set. Such individuals are not wed to the status quo and are comfortable with change

and uncertainty. It is important to involve individuals with different backgrounds and approaches to innovation. For instance, some individuals are great at generating ideas while others may be better at researching and validating them. This group of individuals would then be defined as a network. The second step, *set boundaries and engage*, is where the network's goals and objectives are defined. It is important to make it clear how the network's goals and objectives will contribute to the organization's goals and larger strategy, mission, and vision. Time frames and desired target outcomes are stated as well.

In the third step, *support and govern*, the leadership structure for the network is decided on, along with any protocols for meeting, sharing ideas, and decision making. With these process guidelines in place, the network members can then make sure that they have identified the resources necessary to conduct their work. This includes gaining sponsorship and buy-in from other parts of the organization, including upper management. Finally, the fourth step involves *managing and tracking*. This last step covers a spectrum of needs, ranging from how network members will be recognized and rewarded for their contributions, the agreement about process-tracking criteria, and some guidelines on how new members join the network and others leave.

As mentioned in the *connect* stage of developing an innovation network, you can fine-tune the network's goals by identifying the appropriate mix and balance of employees. Innovation networks, like cross-functional teams, require different skills and attitudes. In McKinsey's experience, they include combinations of several archetypes. Which one are you?

- *Idea generators* prefer to come up with ideas, believe that asking the right questions is more important than having the right answers, and are willing to take risks on high-profile experiments.
- *Researchers* mine data to find patterns, which they use as a source of new ideas. They are the most likely members of the

network to seek consumer insights and to regard such insights as a primary input.

- *Experts* value proficiency in a single domain and relish opportunities to get things done.
- *Producers* orchestrate the activities of the network. Others come to them for new ideas or to get things done. They are also the most likely members of the network to be making connections across teams and groups.

### *Key Takeaway*

This section showed how social networks create value. We started by introducing the social network theory concepts of reciprocity, exchange, and similarity. We then discussed using social networks as a vehicle for advancing your own career. The section concluded by explaining how social networks create value in and across organizations, with specific examples of making invisible work visible, Procter & Gamble's Connect + Develop, and McKinsey's "innovation network" concept.

### *Exercises*

1. What does the social network concept of reciprocity mean, and what are its pros and cons?
2. What does the social network concept of exchange mean, and what are its pros and cons?



3. What does the social network concept of similarity mean, and what are its pros and cons?
4. How do social networks create value in a career management setting?
5. How do social networks create value in an organizational setting?
6. What are some ways that an organization can manage the social network to be more innovative?

<sup>1</sup>How companies approach innovation: A McKinsey global survey. (2007). McKinsey Quarterly.

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# 10.5 Ethical Considerations With Social Network Analysis

## *Learning Objectives*

1. Understanding the ethics of social network analysis.
2. Developing a toolkit for managing the ethical issues.
3. Suggest why ignoring social networks may be unethical.

## What Is Social Network Analysis?

Before delving into the ethical issues, let's revisit social network analysis. Social networking is built on the idea that there is a

determinable structure to how people know each other, whether directly or indirectly. Notions such as six degrees of separation—that everyone on earth is separated from everyone else by no more than six intermediate personal relationships—have popularized the idea that people can be (however unknowingly) connected through common associates. As we mentioned at the beginning of this chapter, social network analysis (SNA) is the mapping and measuring of relationships and flows between people, groups, organizations, computers, Web sites, and other information/knowledge processing entities. This can be done with paper and pencil surveys, software programs, and even comparing e-mail and phone logs, but the desired output is essentially the same. Social networks are the invisible organization. That is, they are the actual organization behind the printed organization chart.

Figure 10.11



Ethics are not simply a matter of the law; they are a prescription for doing good.

Orietta.sberla – [Ethics049webIV](#) – CC BY-SA 3.0.

# Ethical Implications

Application of the principles behind P-O-L-C should help managers lead their organizations to bigger and better things, and social networks are a key ingredient in the “organizing” component (Borgatti & Molina, 2003; Borgatti & Molina, 2005). So, what harm can there be if a manager uses SNA to uncover the invisible structure in their organization? Three top ethical concerns are (1) violation of privacy, (2) psychological harm, and (3) harm to individual standing. Let's look at each of these three ethical concerns in turn.

## Violation of Privacy

Managers typically use surveys (sometimes with the aid of

consultants) to capture and map the structure of a social network. If each employee has consented to the survey, then the manager is on much more solid ground. Care must be taken, however, that participants are aware of the survey's objectives and applications. Recall that a network diagram reflects a pattern or relationship among people, such that survey participants will actually be reporting, by definition, on what other individuals are doing. For instance, if a communication network in your organization is being mapped, you might be asked who you initiate communication with and who initiates it with you. You might also be asked for some indication of communication frequency. So, even if you agreed to complete the survey, the other people that you identify as part of your network may have not.

Surveys are not the only basis for mapping social networks. Indeed, think about the network that might be reflected by the contacts on your cell phone or e-mail lists. Given technology today this data could be readily converted into a social network map showing who corresponded with whom and the length of such correspondence. Moreover, with content coding software, even the content of the e-mails could be coded. This type of social network mapping has more obvious ethical implications because participants of the map may never know that they are actually being mapped!

In both the survey-based and electronic mapping approaches, you might keep the identities of individuals confidential, thereby protecting their privacy. However, it may be possible to *guess* the names of individuals by virtue of their location in the network. For example, if a certain type of information can only originate with one part of an organization, it might be pretty obvious to inside observers how such information flowed internally and externally. Similarly, "organizations are typically quite small, so that even a small number of attributes can uniquely identify individuals (Borghatti & Molina, 2005)." Second, demographic information on each person is often available in the human resources database or is common knowledge because everyone knows everyone else. Even if the outcome of such informal information flows is positive,

the actual communication may be prohibited internally by organizational rules and procedures. For example, you are likely familiar with the way Post-its were developed at 3M through internal entrepreneurial actions—at the time, however, some of those actions were not an explicit part of 3M’s rules and procedures (though, fortunately for 3M, its “bootlegging policy” gave the inventors an opportunity to explore market options for the adhesive that did not stick).<sup>1</sup>

## Harm to Individual Standing

The two remaining ethical issues are somewhat related. As you can imagine from the previous examples, violation of privacy might lead to unforeseen, and possibly unwarranted, disciplinary action. This would harm an individual’s standing. For instance, if a social network map revealed that one individual or an entire department is the bottleneck for information flowing from one part of the organization to another, action might be taken against that individual or members of the department. It may truly be the case that this person or department is a roadblock to progress; but it may just as likely be the case that managers on one side or the other (in terms of social network) of the apparent bottleneck are not very good at delegating or eliciting information. Similarly, the organization may just be trying to run too much through one particular individual in the network. What one views as an indication of individual incompetency may, in fact, be a need for training or the addition of staff to move the information more effectively.

The possible harm to individual standing should be noted if 3M had used a social network map to understand the roots of its Post-it homerun and had internal policies prohibiting the use of time and money on nonapproved projects. If a network survey revealed that 3M's breakthrough was caused by *rogue* employees—that is, employees who were not following the rules about new product development and so on—the individual credited with that innovation might have been reprimanded or fired. This, of course, was not the case in 3M, but you can imagine how organizational policies meant to foster internal efficiencies might prohibit an individual from contravening them, regardless of the benefits of the eventual outcome.

Finally, the purpose of the network analysis may be to identify areas of the firm that just aren't critical to its mission, vision, and strategy. As social network researchers Steve Borgatti and Jose-Luis Molina note, "This introduces dangers for the respondents because management may make job or personnel changes (e.g., firing non-central workers) based on the network analysis. In fact, in the case of a consulting engagement, this may be the explicit purpose of the research, at least from the point of view of management (Borghatti & Molina, 2005)." Obviously, one of the roles of management is to determine the efficient and effective allocation of resources. SNA can be a useful tool in this determination, but the purpose of the analysis should be made clear to participants from the outset.

## Psychological Harm

This third area can be subtle, but it is very important as well.

Psychological harm might arise when information is used in a way that manipulates the behavior of individuals. For instance, managers are likely to develop maps of social networks because their managers believe that there might be better ways of planning, organizing, leading, and controlling. As Borgatti and Molina point out, however, SNA in this context is explicitly part of a transformation process in which the group is shown data about itself, such as network diagrams, and asked to react to it. Experience suggests that this technique serves as a powerful catalyst for change. “It is dangerous, however, because of the powerful emotions it engenders in a group setting and this can put the researcher in the position of practicing therapy without a license (Borghatti & Molina, 2005).”

## A Framework for Managing the Ethical Issues of SNA

Now that you understand some of the ethical issues arising from SNA you are in a better position to anticipate and manage them. Of course, we should refresh your memory on the general ethical decision-making guidelines before delving into more SNA-specific ones. In brief, the following are the six steps (Hartman & DesJardins, 2008):

1. Assess the situation. What are you being asked to do? Is it illegal? Is it unethical? Who might be harmed?
2. Identify the stakeholders and consider the situation from their



point of view. For example, consider the point of view of the company's employees, top management, stockholders, customers, suppliers, and community.

3. Consider the alternatives you have available to you and how they affect the stakeholders. These include:
  1. consequences
  2. duties, rights, and principles
  3. implications for personal integrity and character
4. Consider the effects of your actions. How does the action make you feel about yourself? How would you feel if your actions were reported tomorrow in the *Wall Street Journal* (or your daily newspaper)? How would you explain your actions to your mother or to your 10-year-old child?
5. Make a decision. This might involve going to your boss or to a neutral third party (such as an ombudsman or ethics committee). Know your values and your limits. If the company does nothing to rectify the situation, do you want to continue working for the company?
6. Monitor outcomes. Track what actually happens and compare it to what you expected.

Beyond these general guidelines, there are three specific ways that you might manage SNA related ethical concerns. These are (1) full disclosure, (2) anonymization and opt-out options, and (3) participant training and feedback. Let's look at each of these in turn.

First, you might consider some way of applying the notion of *informed consent* to the participants of an exercise that maps the organization's social networks. This means that each person included in the mapping process would be told the purpose of the exercise, along with what the outcome would look like. We provide an example disclosure form where they would also be apprised of the possible risks. For instance, one SNA informed consent form includes the following paragraph:

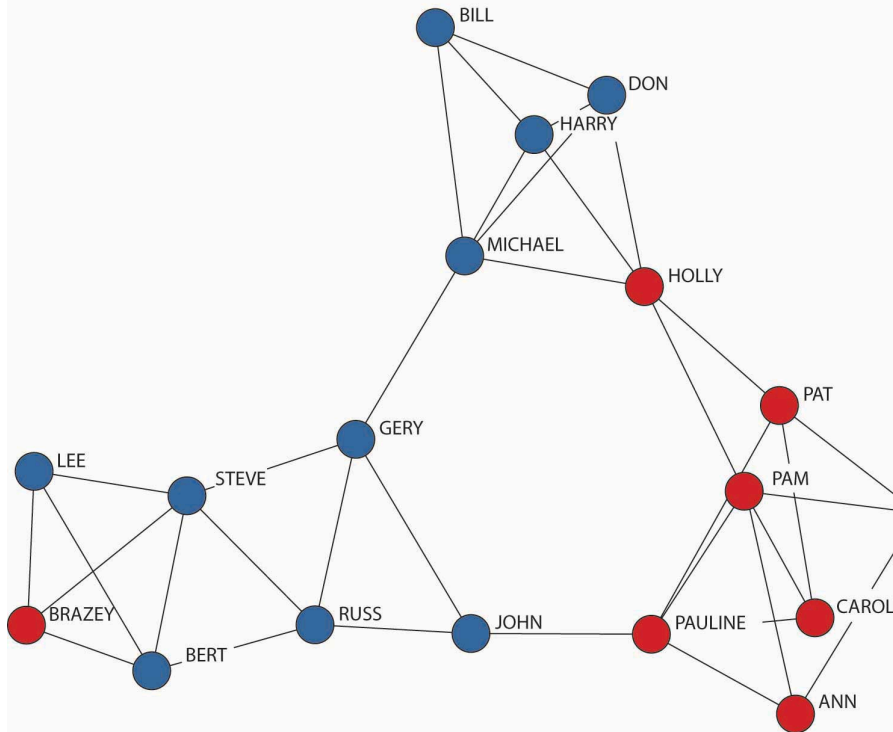
**Risks and costs** Since management will see the results of this study, there is a chance that someone in management could consider your set of communication contacts to be inappropriate for someone in your position, and could think less of you. Please note, however, that the researchers have obtained a signed agreement from management stipulating that the data will be used for improving communication in the company and will not be used in an evaluative way (Borghatti & Molina, 2005).

Second, managers can consider different ways of making the process anonymous or giving individuals the option to opt-out of the mapping process. For example, department-level network information could be presented instead of individual-level information. Where it is impossible to protect the privacy wishes of one individual, then an opt-out option is the only way to protect their privacy, though this will clearly affect the accuracy of the SNA. If an individual opts out, this should mean that their name appears nowhere on the social network diagram (even if they are identified by another individual as being part of their social network). For instance, in the sample map, you can see that the map would be very disjointed if John and Holly opted out of the SNA.

## Figure 10.12 A Social Network Survey Participant Disclosure Form

### B.3. Procedures

You will be asked to fill out an online survey about who you interact with regularly, along with background information about yourself, such as training, department you're in, and so on. It should take about 30 min to complete. In order to map out who talks to whom, we will need you to give us your name when filling out the survey. Once the data have been collected, we will construct social network maps like this one:



Note that the maps contain each person's name. These maps will be shown to management (specifically, all officers in the organization), but will not be shown to others in the organization. In addition, we will calculate network metrics such as calculating the "degrees of separation" between pairs of people (i.e., the length of the network paths from one person to another).

Reproduced with permission of Borghatti, S. P., & Molina, J.-L. (2005). Toward ethical guidelines for network research in organizations. *Social Networks*, 27, 107–117.

Finally, managers can consider the application of SNA in conjunction with a larger employee development program where participants are taught about social network analysis and then their results are debriefed with them one on one. Where there are still concerns for privacy, individuals can map their own social networks and then act on them personally. It is management's responsibility to steward the organization's resources in a way that is consistent with the mission and vision. In that sense, SNA is a valuable tool for understanding how the organization's work actually gets done. However, because it is such a powerful and revealing tool, managers must be thoughtful in its ethical application.

## The Ethical Argument in Favor of Managing Social Networks

We close this section with some discussion of why it might actually be unethical to neglect the organization's social network. Be sensitive to the ethical issues surrounding the management of social networks, but that does not mean leaving social network relationships to chance. For instance, if you know that your department would be more productive if person A and person B were connected, as a manager wouldn't you want to make that connection happen? In many firms, individuals are paid based on

performance, so this connection might not only increase the department's performance, but its personal incomes as well.

The broader issue is that social networks exist and that the social capital they provide is an important and powerful vehicle for getting work done. That means that the ethical manager should not neglect them. Wayne Baker, author of *Achieving success through Social Capital*, puts it this way:

“The ethics of social capital [i.e., social network relationships] requires that we all recognize our moral duty to consciously manage relationships. No one can evade this duty—not managing relationships is managing them. The only choice is how to manage networks of relationships. To be an effective networker, we can't directly pursue the benefits of networks, or focus on what we can get from our networks. In practice, *using* social capital means putting our networks into action and service for others. The great paradox is that by contributing to others, you are helped in return, often far in excess of what anyone would expect or predict (Baker, 2000).”

### *Key Takeaway*

Now that you have a better understanding of social networks and SNA you need to understand some of the ethical implications of the application of such knowledge. You learned that SNA gives rise to concerns about privacy, harm to individual standing, and psychological harm. You were reminded that the general ethical decision-making framework applies to your use of SNA, but you also learned some specific approaches to managing SNA-related ethical issues. Finally, you were presented with arguments about

why neglect of an organization's social network also can have negative ethical implications.

## *Exercises*

1. What is social network analysis?
2. Why should managers be concerned about the ethical implications of social network analysis?
3. What might be some of the unforeseen consequences of SNA for you as an employee?
4. How would the privacy of employees be affected even if they are not directly surveyed as part of the SNA?
5. What steps can you take to improve the ethical bases for conducting SNA?
6. Why might it be unethical for managers to neglect the organization's social networks?

<sup>1</sup>To foster creativity, 3M encourages technical staff members to spend up to 15% of their time on projects of their own choosing. Also known as the “bootlegging” policy, the 15% rule has been the catalyst for some of 3M's most famous products, such as Scotch Tape and—of course—Post-it notes. Retrieved November 17, 2008, from [source](#).

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## 10.6 Personal, Operational, and Strategic Networks

### *Learning Objectives*

1. See networks as something you can, and need to, manage.
2. Know about different network forms—personal, operational, and strategic.
3. Understand some of the actions you need to take to move your network forward.

This section draws heavily on recent research by Herminia Ibarra, Brian Uzzi, and others, to help you understand the different forms that social networks can take. Ibarra and Uzzi have been studying the social networks and social networking tactics and strategies of managers for more than 20 years and are considered thought-leaders in the field (Ibarra & Hunter, 2007; Ibarra, 2006). Their most recent work suggests that strong, useful networks don't just happen at the watercooler. They have to be carefully constructed.

What separates successful managers from the rest of the pack? Networking: creating a fabric of personal contacts to provide the support, feedback, and resources needed to get things done. Yet many managers avoid networking. Some think they don't have time for it. Others disdain it as manipulative. To succeed as a manager, Ibarra recommends building three types of networks:

- Personal—kindred spirits outside your organization who can



help you with personal advancement.

- Operational—people you need to accomplish your assigned, routine tasks.
- Strategic—people outside your control who will enable you to reach key organizational objectives.

These networks, their purpose, and how to build network membership, are summarized in “Personal, Operational, and Strategic Networks.” Most importantly, Ibarra’s work suggests that leaders need to possess all three types of networks, and not just one or two. Let’s take a look at each one of these networks.

# Table 10.1 Personal, Operational, and Strategic Networks

	The purpose of this network is to...
Personal network	exchange important referrals and needed outside information; develop p skills through coaching and mentoring
Operational network	get your work done, and get it done efficiently.
Strategic network	figure out future priorities and challenges; get stakeholder support for th

# Personal Networks

“Personal networks are largely external, made up of discretionary links to people outside the workplace with whom we have something in common. As a result, what makes a personal network powerful is its referral potential. According to the famous six degrees of separation principle, our personal contacts are valuable to the extent that they help us reach, in as few connections as possible, the far-off person who has the information we need (Ibarra & Hunter, 2007).”

Figure 10.13



Social networks can serve personal, operational, or strategic purposes.

Agência Brasil – [A working dinner at the summit](#) – CC BY 3.0.

Personal networking engages kindred spirits from outside an organization in an individual's efforts to learn and find opportunities for personal advancement. Personal networks are one's circle of casual acquaintances, typically composed of people outside of the company you work for. Before you have a job in a particular company, many of your network ties are personal, oriented toward current interests and future potential interests. Key contacts are typically discretionary—that is, it is not always clear who is most relevant.

Most personal networks are highly clustered—that is, your friends are likely to be friends with one another as well. And, if you made those friends by introducing yourself to them (as opposed to being introduced by a mutual acquaintance), the chances are high that their experiences and perspectives echo your own. Ideas generated within a personal network typically circulate among the same

people with shared views. This creates the risk that a potential winning idea can go unexploited if no one in the group has what it takes to bring that idea to fruition.

But what if someone within that cluster knows someone else who belongs to a whole different group? That connection, formed by an information broker, can expose your idea to a new world, filled with fresh opportunities for success. Diversity and breadth, that is, reaching out to contacts who can make referrals, makes the difference. Through professional associations, alumni groups, clubs, and personal interest communities, managers gain new perspectives that allow them to advance in their careers. This is what we mean by personal networking.

While personal networks are important, particularly to the extent that they provide you with valuable resources and access to needed resources, the challenge is to convert them into network resources that also help with operational and strategic needs. Too often, however, those individuals in the personal network just aren't the right types of ties to be beneficial operationally or strategically, which is why you need to look at broadening your network to address operating and strategic needs.

## Operational Networks

“All managers need to build good working relationships with the people who can help them do their jobs. The number and breadth of people involved can be impressive—such operational networks include not only direct reports and superiors but also peers within

an operational unit, other internal players with the power to block or support a project, and key outsiders such as suppliers, distributors, and customers. The purpose of this type of networking is to ensure coordination and cooperation among people who have to know and trust one another in order to accomplish their immediate tasks...Either you're necessary to the job and helping to get it done, or you're not (Ibarra & Hunter, 2007)."

On the basis of a close study of 30 emerging leaders, Ibarra and Hunter found that operational networking was geared toward doing one's assigned tasks more effectively. It involves cultivating stronger relationships with colleagues whose membership in the network is clear; their roles define them as stakeholders. The previous quote provides you with a good working definition of operational network: "Either you're necessary to the job and helping get it done, or you're not." That is, anyone who satisfies this criterion should be considered part of your operational network.

So, now you have two networking bases covered. At least you know how to identify the gaps in your personal and operational network. Your personal network provides access to external resources and referrals; your operational network helps you get the work done. Thus, most operational networking occurs within an organization, and ties are determined in large part by routine, short-term demands. Relationships formed with outsiders, such as board members, customers, and regulators, are directly task-related and tend to be bounded and constrained by demands determined at a higher level. But as a manager moves into a leadership role, his or her network must reorient itself externally and toward the future. This is the role played by strategic networking.

# Strategic Networks

“Making a successful leadership transition requires a shift from the confines of a clearly defined operational network...It is a challenge to make the leap from a lifetime of functional contributions and hands-on control to the ambiguous process of building and working through networks. Leaders must accept that networking is one of the most important requirements of their new leadership roles and continue to allocate enough time and effort to see it pay off (Ibarra & Hunter, 2007).”

Whereas an operational network is fairly narrowly focused, with the locus of contacts formed around specific objectives, a strategic network necessarily involves lateral and vertical ties to stakeholders inside and outside of the firm. As Ibarra and Hunter found in their research, strategic networking is the ability to marshal information, support, and resources from one sector of a network to achieve results in another. Pushed to its logical limit, the basis of this difference is that effective leaders are highly dependent on others to get things done. The irony here is that the individuals in your network, who are the lifeline for building up the big picture, are also individuals who are likely to be outside of your immediate control. While this may seem obvious, it is often difficult to transition from a purely operational network to a strategic one, either due to simple time constraints (strategic networking takes time, often without immediate or obvious benefits) or because of negative personal attitudes toward strategic networking (for instance, “that’s too political and goes against my values”).

# Making It Happen

Networks create value, but networking takes real work. Beyond that obvious point, accept that networking is one of the most important requirements of a leadership role. To overcome any qualms about it, identify a person you respect who networks effectively and ethically. Observe how he or she uses networks to accomplish goals. You probably will also have to reallocate your time. This means becoming a master at the art of delegation, to liberate time you can then spend on cultivating networks.

Building a network obviously means that you need to establish connections. Create reasons for interacting with people outside your function or organization; for instance, by taking advantage of social interests to set the stage for addressing strategic concerns. Ibarra and Hunter found that personal networking will not help a manager through the leadership transition unless he or she learns how to bring those connections to bear on organizational strategy. In “Guy Kawasaki’s Guide to Networking through LinkedIn,” you are introduced to a number of network growth strategies using that powerful Web-based tool.

Finally, remind yourself that networking requires you to apply the principle of reciprocity. That is, give and take continually—though a useful mantra in networking is “give, give, give.” Don’t wait until you really need something badly to ask for a favor from a network member. Instead, take every opportunity to give to—and receive from—people in your networks, regardless of whether you need help.

# Guy Kawasaki's Guide to Networking Through LinkedIn

LinkedIn (<http://www.Linkedin.com>) is the top business social networking site. With more than 30 million members by the end of 2008, its membership dwarfs that of the second-largest business networking site, Plaxo. LinkedIn is an online network of experienced professionals from around the world representing 150 industries (LinkedIn, 2008). Yet, it's still a tool that is underutilized, so entrepreneur Guy Kawasaki compiled a list of ways to increase the value of LinkedIn (Guy Kawasaki, 2008). Some of Kawasaki's key points are summarized here that can help you develop the strategic side of your social network (though it will help you with job searches as well):

Increase your visibility. By adding connections, you increase the likelihood that people will see your profile first when they're searching for someone to hire or do business with. In addition to appearing at the top of search results,



people would much rather work with people who their friends know and trust.

Improve your connectability. Most new users put only their current company in their profile. By doing so, they severely limit their ability to connect with people. You should fill out your profile like it's a resume, so include past companies, education, affiliations, and activities. You can also include a link to your profile as part of an e-mail signature. The added benefit is that the link enables people to see all your credentials.

Perform blind, "reverse," and company reference checks. Use LinkedIn's reference check tool to input a company name and the years the person worked at the company to search for references. Your search will find the people who worked at the company during the same time period. Since references provided by a candidate will generally be glowing, this is a good way to get more balanced data.

Make your interview go more smoothly. You can use LinkedIn to find the people that you're meeting. Knowing that you went to the same school, play hockey, or share acquaintances is a lot better than an awkward silence after, "I'm doing fine, thank you."

Gauge the health of a company. Perform an advanced search for company name and uncheck the "Current Companies Only" box. This will enable you to scrutinize the rate of turnover and whether key people are abandoning ship. Former employees usually give more candid opinions about a company's prospects than someone who's still on board.

## *Key Takeaway*

In this section, you were introduced to a different slant on social networks—a slant that helps you manage your networks based on where you might be in an organization. Personal networks are important and tend to follow you everywhere. In this section, we stressed the access-to-information and referral benefits of personal networks. Operational networks are those that help you get your immediate work done, and if the key stakeholders in the work process aren't already in your operational network, then you have some network rework in order. Finally, strategic networks are those that involved a much broader stakeholder group and typically involved individuals who are out of your direct control. One key takeaway from this section is that effective leaders are effective networkers, and you will need to figure out the style of networking that works for you as you move higher in an organization.

## *Exercises*

1. What characterizes a personal social network?
2. What benefits do members of a personal social network provide to each other?
3. What characterizes an operational social network?
4. What is a simple rule of thumb for determining if someone should be in your operational network?

5. What characterizes a strategic social network?
6. What two barriers interfere with the development of strategic networks?

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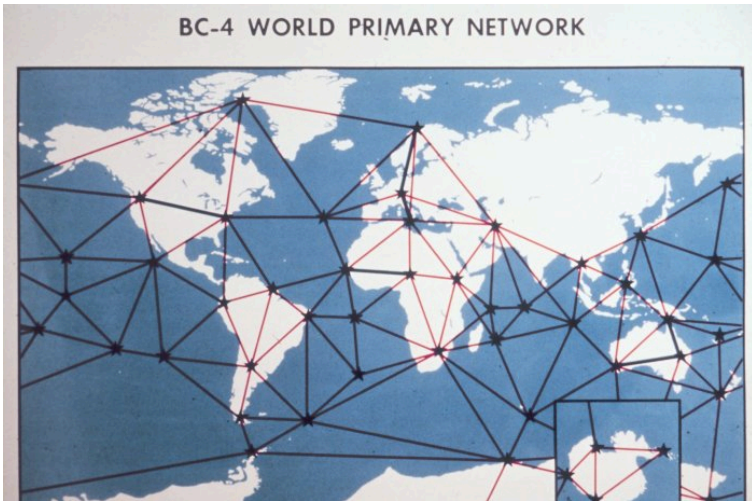
## 10.7 Mapping and Your Own Social Network

### *Learning Objectives*

1. Understand what is involved in social network analysis.
2. Be able to analyze your own social network.
3. Be able to identify the gaps in your network and develop a plan to fill those gaps.

As you have already learned, the mapping and measuring of relationships and flows between people, groups, organizations, computers, Web sites, and other information/knowledge processing entities is called social network analysis. Social network analysis is not the same thing as networking, where networking is the activities you might engage in to build your social network. In this section, you will learn the basics of mapping your own social network. It will give you a sense of the size of your network, along with some other useful characteristics to work with such as density.

Figure 10.14



You can map your social network to understand its structure.

Kat Masback – [BC-4 World Primary Network](#) – CC BY-SA 2.0.

## Step One: What Purpose Should the Network Serve?

There are a number of possible purposes for a social network.<sup>1</sup> As a manager, you are probably most concerned with these six (Cross, et. al., 2002). First, a communication network is the informal

structure of an organization as represented in ongoing patterns of interaction, either in general or with respect to a given issue. Second, an information network shows who goes to whom for advice on work-related matters. Third, a problem-solving network indicates who goes to whom to engage in dialogue that helps people solve problems at work. Fourth, a knowledge network captures who is aware of whose knowledge and skills, and an access network (fifth) shows who has access to whose knowledge and expertise. The sixth and final purpose is a career network, which reflects those individuals in your network who are likely to be helpful in your search for a new job or quest for a promotion. Given that you are reading a principles of management book, a career network may be the most interesting to you.

## Step Two: Who Are Your Contacts and What Is Your Relationship with Them?

Let's assume that we are mapping your career network. A career network is simply those individuals who might be instrumental in helping you secure a new job or promotion. You can simply draft out a list of names, using names or just initials, but the goal is to develop a fairly complete list. The list can be as long or as short as you want to make it, though keep in mind that there is probably a limit to how effectively you can maintain a large network where you

expect each relationship to be strong and meaningful, or at least one where the contact would probably respond to your request for assistance. Managers with 15 years of experience might list 30 to 50 names, while a college student might list 15 to 25 names. These are just averages, though, and individuals can be much higher or lower, depending on their situation.

The following three questions are sometimes useful in drafting out this initial list.

1. If you look back over the last two to three years, who are the people with whom you have discussed important school or work matters? This may have been for bouncing around ideas for important projects, getting support or cooperation for your initiatives, evaluating opportunities, or any other matters of importance to you.
2. What people have been most helpful and useful in accomplishing your job, in a work, school, or volunteer setting? Consider people who have provided leads, made introductions, offered advice in your decision making, or provided resources.
3. Who has directly influenced your career? List those people who have contributed most significantly to your professional development and career advancement during the past two to three years.

Now that you have your list, briefly categorize the names based on (1) the strength of your relationship (very close, close, not very close, distant) and (2) who they are and where they come from. For this second facet, you might want to consider the following:

<b>Total no. of ties</b> _ _ _ _ _	<b>No. Ties</b>	<b>% of Total</b>
1. Your senior (higher up in your or another organization)	_____	_____
2. Your peer (at your level in your or another organization)	_____	_____
3. Your junior (below you in your or another organization)	_____	_____
4. From a different functional or product area	_____	_____
5. From a different business unit or office in your firm	_____	_____
6. From a different firm	_____	_____
7. The same gender as you are	_____	_____
8. Members of the same racial or ethnic group as you are	_____	_____
9. The same nationality as you are	_____	_____

You will come back to this information after the next step, but you already have a better picture of your network just after this second step. For instance, you know how many people are in this network, and the relative presence of different types of network members.



# Step Three: Who Knows Whom? Computing Network Density

Transfer your list of names to a grid like the one shown in the Sample Network Grid. Be sure to note your relationship with them, in terms ranging from very close to distant. To complete the grid you place a check in the box where one individual knows another. For instance, in this exhibit, Mary knows Zachary, Wesley, and Gerry.

Figure 10.15 Sample Network Grid

Names		Relation	2	3	4	5	6	7	8	9
1.	Mary			✓	✓				✓	
2.	Zachary					✓	✓		✓	
3.	Wesley						✓	✓	✓	
4.	Lisa									
5.	Mason									✓
6.	Berrin							✓	✓	
7.	Talya								✓	
8.	Gerry									
9.	Erica									
10.	Geoff									

## Computing Network Density

Once you have finished check-marking who knows whom, compute the density of your network using the following:

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a. Total number of people in your network

*To follow our example, N = 10 (i.e., there are 10 names)*

b. Maximum Density (i.e., if everyone in your network knew each other). *Our maximum density is .42*  
 **$[N \times (N - 1)] \div 2 = M$**

c. Total number of checkmarks on your network grid (i.e., the number of relationships among people in your network)  
*In our example, C = 19.*

d. Density of Your Network. *Our D = 19 ÷ 45 = .42*  
 **$C \div M = D$**

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In our example, if our calculations are correct, the density of this network is .42. If each person in this network knew every other person, then the density would be 1.0; if no one knew one another, outside of the person whose network this was, then the density would be 0.0. In our example, the network density is close to the middle, which means that about fewer than half the people have common network ties, while a little more than half have unique relationships. You might also want to run this calculation for a subset of the ties based on whether they are very strong, distant, and so on. If you do use a subset, though, then remember to use that number as your starting point (N = no. very close ties, for instance).

# What Is a Good Number?

There is little research to tell us exactly how big (or small) or how dense (or sparse) the *ideal* network should be, although there are some facts to consider. Remember Dunbar's number from earlier in the chapter? Some studies have suggested an upper limit of 150 network ties, but, again, that is a pretty big number if you also characterize those ties as "very close." It is perhaps more reasonable if a few are very close and the rest are spread out in the "close" to "distant" categories. If you have a network of 15 to 20 people whose names come to mind quickly, that is probably a useful size, particularly if your network density is around the middle. Remember, you just set up a network where you were sort of the center point, and each member of your network, even if he/she is peripheral to yours, is the center of his/her own network.

A good number for density is between .40 and .60—that is, some people know one another, and some do not. The advantage of having people in your network who know one another is that they are likely to communicate more frequently and provide a set of shared relationships that you can use to move information, ideas, and other resources forward. Also, if any one of your network members, who knows no one else in the network, leaves the network for some reason, you will no longer have access to the stuff he or she provided for you.

You also want a number of unique ties though, since those relationships provide you access to unique information, resources, and ideas. Because of the network theory principles of reciprocity and exchange your network is likely to be more responsive when you have helped others in the network (reciprocate favors), and such reciprocation is most likely when you have access to unique resources (the exchange principle).

# Step Four: Assess and Take Action

Let's take a look at the information you now have about your network. From step 2 you have the size of your network, and the percentage of ties that break out by relationship (very strong to distant) and characteristics (company, demographics, and so on). From step 3 you have the density of your network, and that helps shed additional light on the information generated in step 2.

This puts you in a pretty good position. If you think your network is too small, you have a way to identify the gaps in your network that, if filled, would both grow your network and fill those key gaps. If density is too high, then the pathway is similar as well. If you think that you have a great network already, then you can validate this with the information generated in steps 2 and 3. In all likelihood, you will see opportunities to shore up gaps and develop strategies for doing so.

Here are some pointers from effective managers on how to make sure your network is creating value for you:

- When entering a new position, effective managers identify the people on whom they depend for getting things done and focus their energies on cultivating relationships with those people.
- Effective managers consider others as potential allies, even when they may appear to be adversaries. They develop awareness of key goals and resources valued by the potential ally and attempt to find areas of mutual benefit.
- Relationships with people who are dissimilar on multiple dimensions (e.g., a senior manager in another division) are the most difficult to cultivate and therefore require the most explicit strategies.

- Effective managers tend to be keenly aware of their personal preferences and interaction styles for developing their networks. For example, those who are not comfortable with extracurricular socializing may make extra time for informal conversations at work.

### *Key Takeaway*

You now have a good understanding of how to analyze the basic characteristics of your social network or that of another individual. In this section you were introduced to a pencil-and-paper approach to social network analysis, though you can also use electronic forms that map more complex relationships, and perhaps show how multiple networks are tied (or not tied) together. This section closed with showing you how to bolster the value created by your social network.

### *Exercises*

1. How might social network analysis help you find a new job?
2. What are the basis steps in social network analysis?
3. What information do you need to analyze your social network?
4. Why is the size of your network important?
5. Why is the density of your network important?

6. What can you do to create value through your social network?

<sup>1</sup>The first author, Mason A. Carpenter, has been using social networking mapping in his classes for the past 15 years. This particular mapping tool has evolved over that time and is inspired by the larger body of social network research. There is no magic to this particular grid tool, and you are welcome to use and adapt it as the need arises. This grid simply asks students to identify who might be helpful in their network, the nature of their relationship with these individuals, and which members know each other.

## References

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