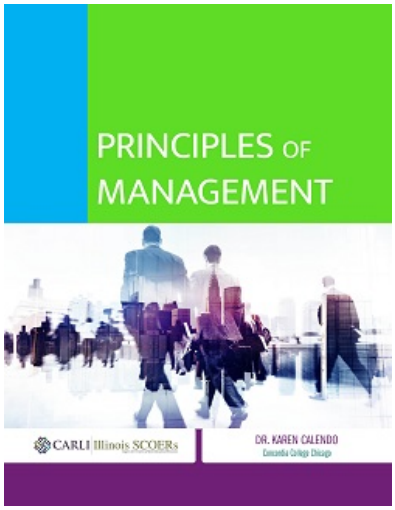
PRINCIPLES OF MANAGEMENT



Karen Calendo
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Principles of Management

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Preface

The Creation of this Open Educational Resource (OER)

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CHAPTER OVERVIEW

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1.1: Biblical Insight

Biblical Insight


Applying the Bible to Business

We are all recipients and stewards of God’s Grace. “As each has received a gift, use it to serve one another, as good stewards of God's varied grace.” (1 Peter 4:10). God has given each of us different talents and abilities to serve Him, which is called our vocation.

Some people have deep compassion, which fits well in serving others in the vocation of health care, while some individuals like to develop and lead people or organizations in business management. For example, one of the first businessmen listed in the bible was Abram. In the scriptures, we can see that "Abram had become very wealthy in livestock and in silver and gold” Genesis 13: 1-2. Each person’s talents and vocation are unique. God has equipped each of us perfectly for the vocation he has for us.

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1.2: Introduction

Learning Objectives

After reading this chapter, you should be able to answer these questions:

- What do managers do to help organizations achieve top performance?
- What are the roles that managers play in organizations?
- What are the characteristics that effective managers display?



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Exploring Managerial Careers: You

So, you're in this course and you may have pondered or discussed with others what this course will be about. You probably have some preconceptions of what management is all about. For instance, you must manage your time, deciding on how much study time you will devote to your management and accounting classes. You may have had a summer or part-time job where you had a manager whom you had to report to. You may have followed news reports on successful managers like Jeff Bezos of Amazon or Sheryl Sandberg, formerly of Facebook (now known as Meta) and want to learn what made them successful so you can emulate their practices in your business career. You may have the impression (not an accurate one) that management is basically just common sense and that you really don't need to take this course except to meet your degree requirement.

You may be an accounting or marketing major who is taking this class because it is required for completion of your degree requirements, but you don't think that you will ever require what you learn in this class during your career because you don't plan on applying for HR jobs upon graduation. If you believe this, you could not be more mistaken. Regardless of where you are in your career, be it as an individual contributor, project leader, or middle or senior manager, what you will get from this course will be valuable. If your first job out of college is as an accountant, sales representative, or another entry-level position, you will appreciate the roles that your managers, both direct and senior level, play in an organization and the behaviors and actions that will get you recognized and appreciated. Best of luck!

Most management textbooks would say, as does this one, that managers spend their time planning, organizing, staffing, directing, coordinating, reporting, and controlling. These activities, as Hannaway found in her study of managers at work, "do not, in fact, describe what managers do" (Hannaway, 1989). At best, they seem to describe vague objectives that managers are continually trying to accomplish. The real world, however, is far from being that simple. The world in which most managers work is a "messy and hectic stream of ongoing activity" (Eccles & Nohria, 1992).

Overview: I Got Rich When I Understood This! In this motivational video, Jeff Bezos shares some of his most powerful business advice that will help reveal the secrets of becoming successful, rich, and the entrepreneur of your dreams!



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1.3: What Do Managers Do?

Learning Objectives

1. Understand what managers do to help organizations achieve top performance.

Managers are in constant action. Virtually every study of managers in action has found that they “switch frequently from task to task, changing their focus of attention to respond to issues as they arise, and engaging in a large volume of tasks of short duration" (Hannaway, 1989). Mintzberg observed CEOs on the job to get some idea of what they do and how they spend their time. He found, for instance, that they averaged 36 written and 16 verbal contacts per day, almost every one of them dealing with a distinct or different issue. Most of these activities were brief, lasting less than nine minutes (Mintzberg, 1973).

Kotter studied a number of successful general managers over a 5-year period and found that they spend most of their time with others, including subordinates, their bosses, and numerous people from outside the organization. Kotter’s study found that the average manager spent just 25% of his time working alone, and that time was spent largely at home, on airplanes, or commuting. Few spent less than 70% of their time with others, and some spent up to 90% of their working time this way (Kotter, 1999).

Kotter also found that the breadth of topics in their discussions with others was extremely wide, with unimportant issues taking time alongside important business matters. His study revealed that managers rarely make “big decisions” during these conversations and rarely give orders in a traditional sense. They often react to others’ initiatives and spend substantial time on unplanned activities that aren’t on their calendars. He found that managers spend most of their time in short, disjointed conversations with others. “Discussions of a single question or issue rarely last more than ten minutes,” he notes. “It is not at all unusual for a general manager to cover ten unrelated topics in a five-minute conversation" (Kotter, 1999). More recently, managers studied by Sproull showed similar patterns. In the course of a day, they engaged in 58 different activities with an average duration of just nine minutes (Sproull, 1984).

Interruptions also appear to be a natural part of the job. Stewart found that the managers she studied could work uninterrupted for half an hour only nine times during the four weeks she studied them (Stewart, 1967). Managers, in fact, spend very little time by themselves. Contrary to the image offered by management textbooks, they are rarely alone drawing up plans or worrying about important decisions. Instead, they spend most of their time interacting with others—both inside and outside the organization. If casual interactions in hallways, phone conversations, one-on-one meetings, and larger group meetings are included, managers spend about two-thirds of their time with other people (Eccles & Nohria, 1992). As Mintzberg (1973) pointed out, “Unlike other workers, the manager does not leave the telephone or the meeting to get back to work. Rather, these contacts are his work."

The interactive nature of management means that most management work is conversational (Pondy, 1978). When managers are in action, they are talking and listening. Studies on the nature of managerial work indicate that managers spend about two-thirds to three-quarters of their time in verbal activity (Mintzberg, 2009). These verbal conversations, according to Eccles and Nohria, are how managers gather information, stay on top of things, identify problems, negotiate shared meanings, develop plans, put things in motion, give orders, assert authority, develop relationships, and spread gossip. In short, the manager’s daily practice is all about these interactions. “Through other forms of talk, such as speeches and presentations,” they write, “managers establish definitions and meanings for their own actions and give others a sense of what the organization is about, where it is at, and what it is up to" (Eccles & Nohria, 1992).

Concept Check

1. What do managers do to help organizations achieve top performance?

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1.4: The Roles Managers Play

Learning Objectives

1. What are the roles that managers play in organizations?

In Mintzberg's seminal study of managers and their jobs, he found most of them clustered around three core management roles.

Interpersonal Roles

Managers are required to interact with a substantial number of people in the course of a workweek. They host receptions, take clients and customers to dinner, meet with business prospects and partners, conduct hiring and performance interviews, and form alliances, friendships, and personal relationships with many others. Numerous studies have shown that such relationships are the richest source of information for managers because of their immediate and personal nature (Mintzberg, 1990).

Three of a manager's roles arise directly from formal authority and involve basic interpersonal relationships. First is the **figurehead role**. As the head of an organizational unit, every manager must perform some ceremonial duties. In Mintzberg's study, chief executives spent 12% of their contact time on ceremonial duties; 17% of their incoming mail dealt with acknowledgments and requests related to their status. One example is a company president who requested free merchandise for a handicapped schoolchild (Mintzberg, 1990).

Managers are also responsible for the work of the people in their unit, and their actions in this regard are directly related to their role as leaders. According to Mintzberg (1990), the influence of managers is most clearly seen in the **leader** role. Formal authority vests them with great potential power. Leadership determines, in large part, how much power they will realize.

Does the leader's role matter? Ask the employees of Chrysler Corporation (now DaimlerChrysler). When Lee Iacocca took over the company in the 1980s, the once-great auto manufacturer was in bankruptcy, teetering on the verge of extinction. He formed new relationships with the United Auto Workers, reorganized the senior management of the company, and—perhaps most importantly—convinced the U.S. federal government to guarantee a series of bank loans that would make the company solvent again. The loan guarantees, the union response, and the reaction of the marketplace were due in large measure to Iacocca's leadership style and personal charisma. More recent examples include the return of Starbucks founder Howard Schultz to reenergize and steer his company, and Amazon CEO Jeff Bezos and his ability to innovate during a downturn in the economy (McGregor, 2008).



Figure 1.4.1 Howard Schultz Howard Schultz, executive chairman of Starbucks Corporation, speaks after receiving the Distinguished Business Leadership Award during the Atlantic Council's Distinguished Leadership Awards dinner in Washington, D.C. The awards recognize pillars of the transatlantic relationship for their achievement in politics, military, business, humanitarian, and artistic leadership. (Credit: Chairman of the Joint Chief of Staff/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Popular management literature has had little to say about the **liaison** role until recently. This role, in which managers establish and maintain contacts outside the vertical chain of command, becomes especially important given the finding of virtually every study of managerial work that managers spend as much time with peers and other people outside of their units as they do with their own subordinates. Surprisingly, they spend little time with their own superiors. In Rosemary Stewart's study, 160 British middle and top managers spent 47% of their time with peers, 41% of their time with people inside their unit, and only 12% of their time with superiors. Guest's (1956) study of U.S. manufacturing supervisors revealed similar findings (Stewart, 1967).

Informational Roles

Managers are required to gather, collate, analyze, store, and disseminate many kinds of information. In doing so, they become information resource centers, often storing huge amounts of information in their own heads, moving quickly from the role of gatherer to the role of disseminator in minutes. Although many business organizations install large, expensive management information systems to perform many of those functions, nothing can match the speed and intuitive power of a well-trained manager's brain for information processing. Not surprisingly, most managers prefer it that way.

As **monitors**, managers are constantly scanning the environment for information, talking with liaison contacts and subordinates, and receiving unsolicited information, much of it as a result of their network of personal contacts. A good portion of this information arrives in verbal form, often as gossip, hearsay, and speculation.

In the **disseminator** role, managers pass privileged information directly to subordinates, who might otherwise have no access to it. Managers must not only decide who should receive such information but how much of it, how often, and in what form. Increasingly, managers are being asked to decide whether subordinates, peers, customers, business partners, and others should have direct access to information 24 hours a day without having to contact the manager directly.

In the **spokesperson** role, managers send information to people outside of their organizations: an executive makes a speech to lobby for an organizational cause, or a supervisor suggests a product modification to a supplier. Increasingly, managers are also being asked to deal with representatives of the news media, providing both factual and opinion-based responses that will be printed or broadcast to vast, unseen audiences, often directly or with little editing. The risks in such circumstances are enormous, but so too are the potential rewards in terms of brand recognition, public image, and organizational visibility.

Decisional Roles

Ultimately, managers are charged with the responsibility of making decisions on behalf of both the organization and the stakeholders with an interest in it. Such decisions are often made under circumstances of high ambiguity and with inadequate information. Often, the other two managerial roles—interpersonal and informational—will assist a manager in making difficult decisions in which outcomes are unclear and interests are often conflicting.

In the role of **entrepreneur**, managers seek to improve their businesses, adapt to changing market conditions, and react to opportunities as they present themselves. Managers who take a longer-term view of their responsibilities are among the first to realize that they will need to reinvent themselves, their product and service lines, their marketing strategies, and their ways of doing business as older methods become obsolete and competitors gain advantage.

While the entrepreneur role describes managers who initiate change, the **disturbance** or **crisis handler** role depicts managers who must involuntarily react to conditions. Crises can arise because bad managers let circumstances deteriorate or spin out of control, but just as often good managers find themselves in the midst of a crisis that they could not have anticipated but must react to just the same.

The third decisional role of **resource allocator** involves managers making decisions about who gets what, how much, when, and why. Resources, including funding, equipment, human labor, office or production space, and even the boss's time are all limited, and demand inevitably outstrips supply. Managers must make sensible decisions about such matters while still retaining, motivating, and developing the best of their employees.



Figure 1.4.2: Thomas Pendergast Thomas F. Prendergast, the president of the Metropolitan Transit Authority of New York State, updates media on today's labor negotiations with the LIRR unions. In his role negotiating a new contract with the union, he must take on several managerial roles. (Credit: Metropolitan Transit Authority of New York State/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

The final decisional role is that of **negotiator**. Managers spend considerable amounts of time in negotiations over budget allocations, labor and collective bargaining agreements, and other formal dispute resolutions. Over a week, managers will often make dozens of decisions resulting from brief but important negotiations between and among employees, customers and clients, suppliers, and others with whom managers must deal (Mintzberg, 1990). A visual interpretation of the roles managers play is illustrated in Figure 1.4.3

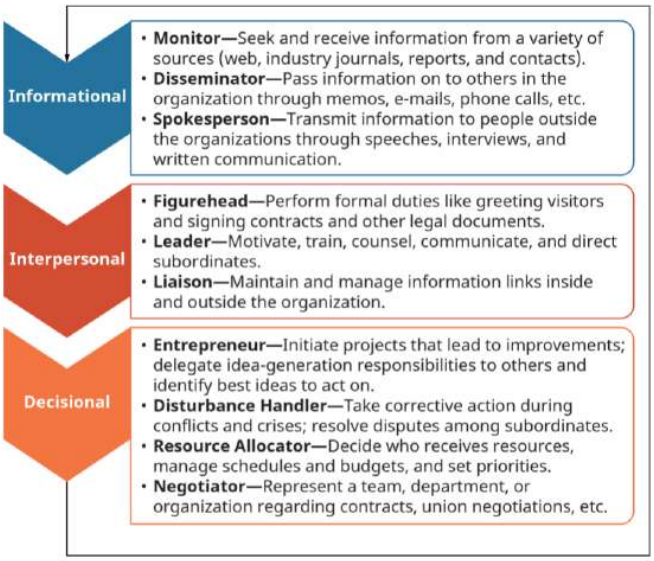


Figure 1.4.3: The Roles Managers Play (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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1.5: Major Characteristics of the Manager's Job

Learning Objectives

1. Understand the characteristics that effective managers display.

Time is fragmented. Managers have acknowledged from antiquity that they never seem to have enough time to complete everything that needs to be done. In the late twentieth century, however, a new phenomenon arose: demand for time from those in leadership roles increased while the number of hours in a day remained constant. Increased work hours was one reaction to such demand, but managers quickly discovered that the day had just 24 hours and that working more of them produced diminishing marginal returns. According to one researcher, “Managers are overburdened with obligations yet cannot easily delegate their tasks. As a result, they are driven to overwork and forced to do many tasks superficially. Brevity, fragmentation, and verbal communication characterize their work" (Mintzberg, 1990).

Values compete, and the various roles are in tension. Managers clearly cannot satisfy everyone. Employees want more time to do their jobs; customers want products and services delivered quickly and at high-quality levels. Supervisors want more money to spend on equipment, training, and product development; shareholders want returns on investment maximized. A manager caught in the middle cannot deliver to each of these people what each most wants; decisions are often based on the urgency of the need and the proximity of the problem.

The job is overloaded. In recent years, many North American and global businesses were reorganized to make them more efficient, nimble, and competitive. For the most part, this reorganization meant decentralizing many processes along with the wholesale elimination of middle management layers. Many managers who survived such downsizing found that their direct reports had doubled. Classical management theory suggests that seven is the maximum number of direct reports a manager can reasonably handle. Today, high-speed information technology and remarkably efficient telecommunication systems mean that many managers have as many as 20 or 30 people reporting to them directly.

Efficiency is a core skill. With less time than they need, with time fragmented into increasingly smaller units during the workday, with the workplace following many managers out the door and even on vacation, and with many more responsibilities loaded onto managers in downsized, flatter organizations, efficiency has become the core management skill of the twenty-first century.

What Varies in a Manager’s Job?

The Emphasis The entrepreneur role is gaining importance. Managers must increasingly be aware of threats and opportunities in their environment. Threats include technological breakthroughs on the part of competitors, obsolescence in a manager’s organization, and dramatically shortened product cycles. Opportunities might include underserved product or service niches, out-of-cycle hiring opportunities, mergers, purchases, or upgrades in equipment, space, or other assets. Managers who are carefully attuned to the marketplace and competitive environment will look for opportunities to gain an advantage.

So is the leader role gaining importance. Managers must be more sophisticated as strategists and mentors. A manager’s job involves much more than simple caretaking in a division of a large organization. Unless organizations can attract, train, motivate, retain, and promote good people, they cannot possibly hope to gain advantage over the competition. Thus, as leaders, managers must constantly act as mentors to those in the organization with promise and potential. When organizations lose a highly capable worker, all else in their world will come to a halt until they can replace that worker. Even if they find someone ideally suited and superbly qualified for a vacant position, they must still train, motivate, and inspire that new recruit and live with the knowledge that productivity levels will be lower for a while than with their previous employee.

Managerial Responsibilities

An important question often raised about managers is: What responsibilities do managers have in organizations? According to our definition, managers are involved in planning, organizing, directing, and controlling. Managers have described their responsibilities that can be aggregated into nine major types of activity. These include:

1. Long-range planning: Managers occupying executive positions are frequently involved in strategic planning and development.

2. Controlling: Managers evaluate and take corrective action concerning the allocation and use of human, financial, and material resources.
3. Environmental scanning. Managers must continually watch for changes in the business environment and monitor business indicators such as returns on equity or investment, economic indicators, business cycles, and so forth.
4. Supervision: Managers continually oversee the work of their subordinates.
5. Coordinating: Managers often must coordinate the work of others both inside and outside the work unit.
6. Customer relations and marketing: Certain managers are involved in direct contact with customers and potential customers.
7. Community relations: Contact must be maintained and nurtured with representatives from various constituencies outside the company, including state and federal agencies, local civic groups, and suppliers.
8. Internal consulting: Some managers use their technical expertise to solve internal problems, acting as inside consultants for organizational change and development.
9. Monitoring products and services: Managers get involved in planning, scheduling, and monitoring the design, development, production, and delivery of the organization's products and services.

As we shall see, not every manager engages in all of these activities. Rather, different managers serve different roles and carry different responsibilities depending on where they are in the organizational hierarchy. We will begin by looking at several of the variations in managerial work.

Variations in Managerial Work

Although each manager may have a diverse set of responsibilities, including those mentioned above, the amount of time spent on each activity and the importance of that activity will vary considerably. The two most salient perceptions of a manager are (1) the manager's level in the organizational hierarchy and (2) the type of department or function for which he or she is responsible. Let us briefly consider each of these.

Management by Level

We can distinguish three general levels of management: **executives**, **middle management**, and **first-line management** (see Exhibit 1.3). **Executive managers** are at the top of the hierarchy and are responsible for the entire organization, especially its strategic direction. Middle managers, who are at the middle of the hierarchy, are responsible for major departments and may supervise other lower-level managers. Finally, first-line managers supervise rank-and-file employees and carry out day-to-day activities within departments (Katz, 1974).

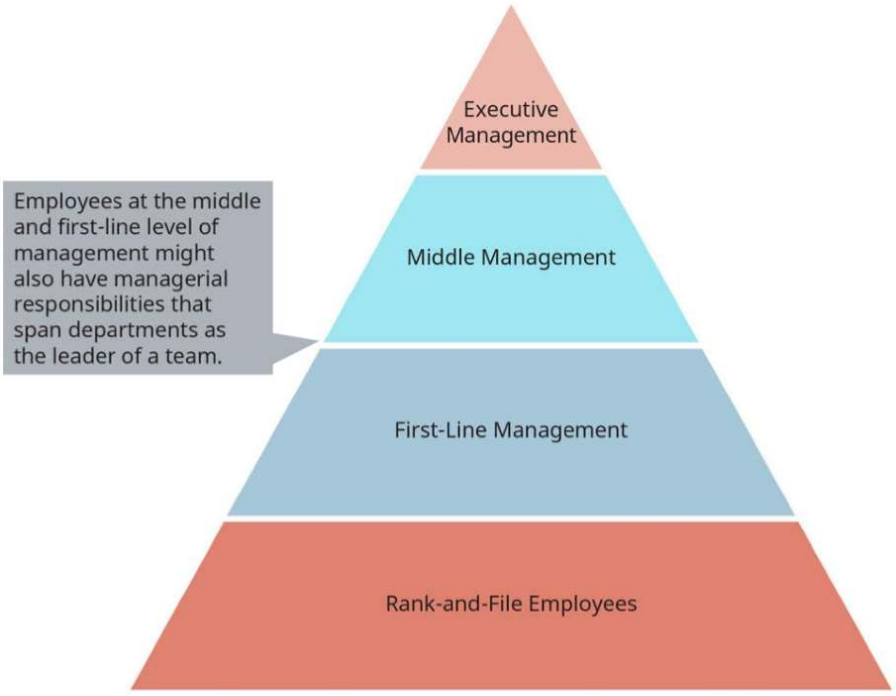


Exhibit 1.5 Levels in the Management Hierarchy (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Exhibit 1.5 shows differences in managerial activities by hierarchical level. Senior executives will devote more time to conceptual issues, while front-line managers will focus on technical issues. For example, top managers rate high on such activities as **long-range planning**, monitoring business indicators, coordinating, and internal consulting. Lower-level managers, by contrast, rate high on supervising because their responsibility is to accomplish tasks through rank-and-file employees. Middle managers rate near the middle for all activities. We can distinguish three types of managerial skills:

1. Technical skills. Managers must be able to use the tools, procedures, and techniques of their special areas. An accountant must have expertise in accounting principles, whereas a production manager must know operations management. These skills are the mechanics of the job.
2. Human relations skills. Human relations skills involve the ability to work with people and understand employee motivation and group processes. These skills allow the manager to become involved with and lead his group.
3. Conceptual skills. These skills represent a manager's ability to organize and analyze information to improve organizational performance. They include the ability to see the organization as a whole and to understand how various parts fit together to work as an integrated unit. These skills are required to coordinate the departments and divisions successfully so that the entire organization can pull together.

As shown in Exhibit 1.6, different levels of these skills are required at different stages of the managerial hierarchy. That is, success in executive positions requires far more conceptual skill and less use of technical skills in most (but not all) situations, whereas first-line managers generally require more technical skills and fewer conceptual skills. Note, however, that human relations skills, or people skills, remain important for success at all three levels in the hierarchy.

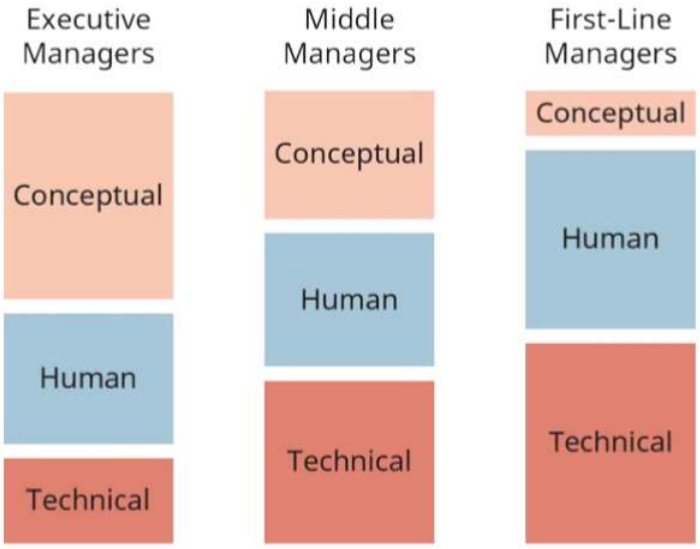


Exhibit 1.6 Difference in Skills Required for Successful Management According to Level in the Hierarchy (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Management by Department or Function

In addition to hierarchical level, managerial responsibilities also differ with respect to the type of department or function. There are differences found for quality assurance, manufacturing, marketing, accounting and finance, and human resource management departments. For instance, manufacturing department managers will concentrate on products and services, controlling, and supervising. Marketing managers, in comparison, focus less on planning, coordinating, and consulting and more on customer relations and external contact. Managers in both accounting and human resource management departments rate high on long-range planning but will spend less time on the organization's products and service offerings. Managers in accounting and finance are also concerned with controlling and monitoring performance indicators, while human resource managers provide consulting expertise, coordination, and external contacts. The emphasis on and intensity of managerial activities varies considerably by the department the manager is assigned to.

At a personal level, knowing that the mix of conceptual, human, and technical skills changes over time and that different functional areas require different levels of specific management activities can serve at least two important functions. First, if you choose to become a manager, knowing that the mix of skills changes over time can help you avoid a common complaint that often young employees want to think and act like a CEO before they have mastered being a first-line supervisor. Second, knowing the different mix of management activities by functional area can facilitate your selection of an area or areas that best match your skills and interests.

In many firms, managers are rotated through departments as they move up in the hierarchy. In this way, they obtain a well-rounded perspective on the responsibilities of the various departments. In their day-to-day tasks they must emphasize the right activities for their departments and managerial levels. Knowing what types of activity to emphasize is the core of the manager's job. In any event, we shall return to this issue when we address the nature of individual differences in the next chapter.

Concept Check

1. Describe and explain the different levels of management.
2. Describe and explain the three types of managerial skills and how they relate to each management level.

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1.6: Summary

Key Terms

Decisional role

One of the three major roles that a manager assumes in the organization.

Executive Managers

Generally, a *team* of individuals is at the highest level of management in an organization.

First-line Managers

The level of management directly managing non-managerial employees.

Informational Role

One of the three major roles that a manager assumes in the organization.

Interpersonal Role

One of the three major roles that a manager assumes in the organization.

Middle Management

The managers in an organization at a level just below that of senior executives.

Summary of Learning Outcomes

1.2 What Do Managers Do?

1. What do managers do to help organizations achieve top performance?

Managers perform a variety of functions in organizations, but one of the most important functions they perform is communicating with direct reports to help their organizations achieve and exceed goals.

1.3 The Roles Managers Play

2. What do managers do to help organizations achieve top performance?

Managers perform a variety of roles in organizations, but one of the most important functions they perform is communicating with direct reports to help their organizations achieve and exceed goals. Managers perform three major roles within organizations: interpersonal roles, informational roles, and decisional roles. The extent of each of these roles depends on the manager’s position within the organizational hierarchy.

1.4 Major Characteristics of the Manager's Job

3. What are the characteristics that effective managers display?

Management is the process of planning, organizing, directing, and controlling the activities of employees in combination with other resources to accomplish organizational goals. Managerial responsibilities include long-range planning, controlling, environmental scanning, supervision, coordination, customer relations, community relations, internal consulting, and monitoring of products and services. These responsibilities differ by level in the organizational hierarchy and by department or function. The twenty-first-century manager will differ from most current managers in four ways. In essence, he will be a global strategist, a master of technology, a good politician, and a premier leader-motivator.

Chapter Review Questions

1. What characteristics and traits do you possess that are common to all successful managers?
2. Why should management be considered an occupation rather than a profession?
3. How do managers learn how to perform the job?
4. Explain the manager's job according to Henry Mintzberg.
5. What responsibilities do managers have towards people within the organization? How do they express these responsibilities?
6. How do managers perform their job according to John Kotter?
7. How do managers make rational decisions?
8. How does the nature of management change according to one's level and function in the organization?
9. Discuss the role of management in the larger societal context. What do you think the managers of the future will be like?
10. Identify what you think are the critical issues facing contemporary management. Explain.

Management Skills Application Exercises

1. During this and your other courses, there will likely be products of your and team-based assignments that can illustrate specific competencies, such as the ability to prepare a spreadsheet application, write programming code, or show your communication abilities that demonstrate your skills in a video. It is a good practice to catalog and save these artifacts in a portfolio that will be useful in demonstrating your skills in future job interviews.
2. Time management is an important skill that will impact your future as a manager. You can categorize the time that you spend as either required or discretionary. You can assess your time management skills by keeping track of your time using a schedule calendar and breaking down the time devoted to each activity over a week. After a week of logging the activity, note whether each activity was required or discretionary and whether the time was used productively or unproductively using a 10-point scale in which ten is very productive, and one is completely unproductive. Now, write up a plan for managing your time by coming up with a list of what to start doing and stop doing and what you can do to manage your discretionary time more productively.

Managerial Decision Exercises

1. You are a manager at a local convenience store that has been the victim of graffiti. Identify the roles you will undertake with both internal employees and others.
2. Here are three job titles. Rank which job would devote the most of its time to conceptual, human, and technical skills.
   - Vice president of finance at a Fortune 100 company
   - Coding for a video game producer
   - General manager at a local McDonald's franchise

Critical Thinking Case

New Management Challenges for the New Age

Today's news is littered with scandals, new allegations of sexual assault, and tragedy. Since 2017 and the #metoo Movement, stemming from the Harvey Weinstein scandal, more and more public figures have been put into the spotlight to defend themselves against allegations from women around the globe.

Not only publicly but privately in companies around the world, there have been firings and investigations into misconduct from co-workers, managers, and CEOs. It is a relevant topic that is getting long overdue publicity and encouraging more men and women to come forward to discuss openly rather than hide the events and injustices of the past. Other events showcase the tumultuous and on-edge society we are living in, such as the Charlottesville, VA attack that left one dead and 19 injured when a person drove a car through a crowd of protestors during a white nationalist gathering.

With events on a daily business, companies need to take a stand against racial hatred and harassment of any kind and have firm policies when such events occur. Take Netflix, for example, who, in July of 2018, fired its chief communications officer for saying the "N-word" in full form. This incident occurred during an internal meeting; the slur was not directed at anyone specific, but the communications officer claimed it was being made to emphasize the issue of offensive words in comedy programming. The "Netflix way," a culture built around radical candor and transparency, was put to the test during this incident.

The offender, Jonathan Friedland, attempted to apologize for his misdeed, hoping it would fade away and his apology would be accepted. However, it didn't work that way; instead, the anger was palpable between coworkers and eventually led to Friedland's firing after a few months of inaction.

Netflixers are given significant freedom and responsibility within their "Netflix way" culture. Blunt feedback is encouraged, and trust and discretion are the ultimate gatekeepers, as employees have access to sensitive information and are ultimately trusted for how they expense items and take vacation time.

Between the insanely fast-paced streaming services industry, it is hard to keep this culture at a premium, but it is imperative for the company's overall success. "As you scale a company to become bigger and bigger, how do you scale that kind of culture?" said Colin Estep, a former senior engineer who left voluntarily in 2016. "I don't know that we ever had a good answer."

To keep up, sometimes the company is seen as harsh in its tactics to keep the best of the best. "I think we're transparent to a fault in our culture and that can come across as cutthroat," said Walta Nemariam, an employee in talent acquisition at Netflix, in the video.

Netflix has stayed true to its cultural values despite the pressures and sometimes negative connotations associated with this "cutthroat" environment. The company's ability to remain agile while displaying no tolerance for societal injustices puts it at the forefront of new-age companies. It is a difficult pace to maintain, but it seems that, for now, its employees are keeping in stride and remaining true to who they are.

Questions:

1. How has the current cultural environment of our country shaped the way that companies are looking at their own corporate cultural standards?
2. What are the potential downfalls and positive influences of the "Netflix way"?
3. How does Netflix's internal culture negatively or positively affect its ability to stay competitive and deliver cutting-edge content?

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CHAPTER OVERVIEW

2: The History of Management

2.1: Biblical Insight
2.2: Introduction to The History of Management
2.3: The Early Origins of Management
2.4: The Italian Renaissance
2.5: The Industrial Revolution
2.6: Taylor-Made Management
2.7: Administrative and Bureaucratic Management
2.8: Human Relations Movement
2.9: Contingency and System Management
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2.1: Biblical Insight



Applying the Bible to Business

Why should we learn history? It is a hallway that never ends. Without it, what would govern our decision-making? This week, we study the history of management. We will have the opportunity to gain great understanding and insights from those who came before us. God has given us history to help guide us into the future, allowing us to be wise in our conduct for His purpose.

"The proverbs of Solomon son of David, king of Israel: For learning wisdom and discipline; for understanding insightful sayings; for receiving prudent instruction in righteousness, justice, and integrity; for teaching shrewdness to the inexperienced, knowledge and discretion to a young man - let a wise person listen and increase learning, and let a discerning person obtain guidance - for understanding a proverb or a parable, the words of the wise, and their riddles." Proverbs 1:1-7 (CSB)

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2.2: Introduction to The History of Management

Learning Objectives

Be able to answer these questions:

- Describe management in the ancient world.
- How did the Italian Renaissance affect the progression of management theory?
- How did the Industrial Revolution affect the progression of management theory?
- How did Frederick Winslow Taylor influence management theory, and how did efficiency in management affect current management theory?
- How do bureaucratic and administrative management complement scientific management?
- How did Elton Mayo influence management theory, and how did the human relations movement affect current management theory?
- How did contingency and systems management transform management thought?

Exploring Managerial Careers

Michael Porter, Harvard Professor and Management Consultant, The Monitor Group. Michael Porter is the Bishop William Lawrence University Professor at Harvard Business School and one of the foremost scholars and consultants in business strategy. Dubbed the first "Lord of Strategy," he is one of the most influential management thinkers of all time. Porter's primary contribution is in the field of competition, specifically the question of why some companies profit while others do not. Porter first became interested in competition because of his enthusiasm for competing in youth sports (baseball, football, and basketball). Porter was born in 1947 and graduated from Princeton in 1969 with a degree in aerospace and mechanical engineering. He received his MBA from Harvard Business School in 1971 and his Ph.D. in business economics from Harvard University in 1973. His book *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (published in 1980) was deemed the ninth most influential work of the 20th century by the Fellows of the Academy of Management. Porter, writing during a period of great economic competition between the United States and Japan, gained a vast audience for his work.



Exhibit 2.2 Michael E. Porter leads a conversation with three leading public and private investors, Jin-Yong Cai, Tony O. Elumelu, and Arif Naqvi, on the panel "Investing in Prosperity: A Conversation with Global Leaders" at the Shared Value Leadership Summit. (Shared Value Initiative/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

In his 1979 *Harvard Business Review* article "How Competitive Forces Shape Strategy," Porter presented his game management idea that five forces help determine profitability. The five forces are competition in the industry, the potential of new entrants, the power of suppliers, the power of customers, and the threat of substitute products. An unattractive industry is one in which the five forces align to produce a purely competitive industry. In this type of industry, normal profit levels are the highest a firm can expect, which means that it can cover its costs and make the owner a profit but cannot make excess profits. Once a firm identifies

the five forces in its industry, it can choose between three generic strategies for success: focus, differentiation, or cost leadership. Depending on where a firm is positioned within the market, the marketplace will determine its strategy. This "five forces, three strategies" framework explains how McDonald's, Morton's Steakhouse, Subway, Wendy's, and TGIF can all be in the same industry and still be profitable. They offer different types of products to different types of customers. These products compete on price, differentiation, focus, or a combination. In addition to the five forces model, Porter developed the value-chain model, which describes the unique activities that a corporation performs to make its products valuable to its customers. Porter has also contributed to healthcare management, environmental regulation, international competition, and industry-level profits.

Porter's five forces framework is intuitive and has provided managers with an approach to developing actual strategies. His ideas became popular because business leaders wanted to know how their companies could compete. Before Porter, management scholars stressed the idiosyncratic nature of business, stressing how each situation faced by each business was different. Other scholars offered business strategy models that were not as useful or practical as Porter's. Through his use of industrial-organizational economics and his training in the case method, Porter bridged the gap between theoretical frameworks and the reality of the competitive business world and became one of the most important thinkers on business in the world.

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While you may think that management is a relatively new field, it actually has its roots in the ancient world. In fact, whenever and wherever there has been commerce, there has been management and those thinking about how to do it better. For example, the Seven Wonders of the Ancient World, including the Colossus of Rhodes, the Hanging Gardens of Babylon, and the Great Pyramid, could only have been constructed through the work of a great many people. The size and complexity of these structures suggest that there must have been people (managers) who coordinated the labor and resources needed to execute the construction plans. Similarly, the Romans and the ancient Chinese could not have managed their vast empires without management, nor could the Phoenicians and the Greeks have dominated oceangoing trade without management.

Because management has been around for a while, it makes sense that the study of management is old. This idea is supported by the many managerial insights we can find in political, diplomatic, and military history and in philosophy, poetry, economics, and literature. Anyone familiar with Shakespeare's *King Lear* would recognize the present-day management problem of succession planning! Modern managers have been influenced by the works of Chinese military strategist and philosopher Sun Tzu, Roman general and politician Julius Caesar, and even Genghis Kahn, Mongolian conqueror and ruler of what became the largest land empire in all of history (Jackson, 2014). Mark Zuckerberg of Facebook is a modern admirer of the Caesars and has said that he bases some of his management style on his classical education (Vargas, 2010).

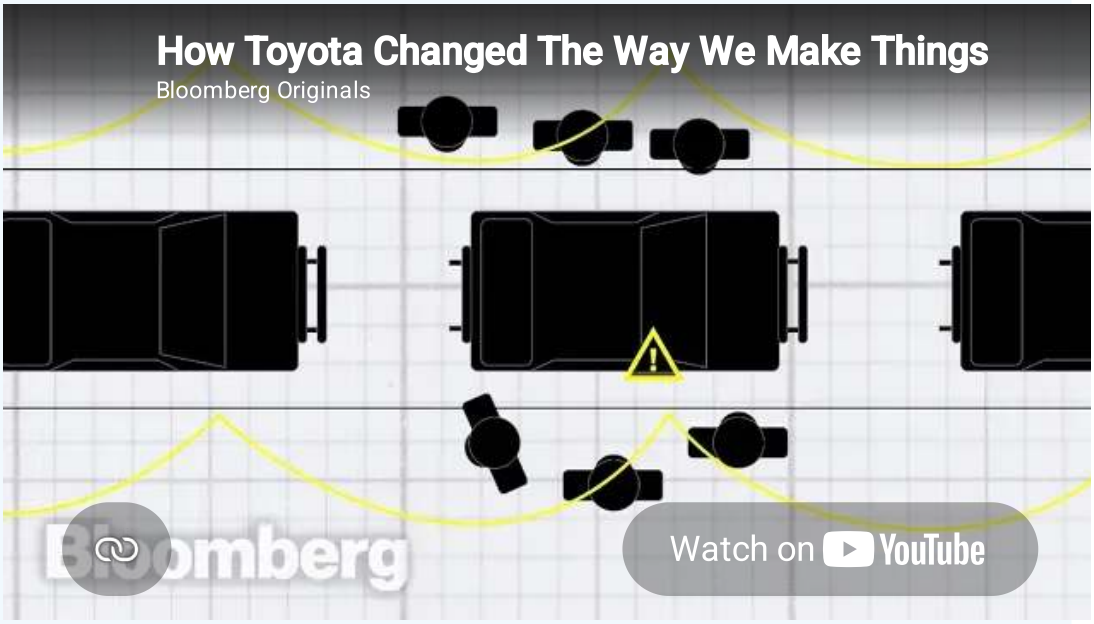
Despite its ancient roots, modern management is less than 150 years old. In fact, a comparison of management before and after the Industrial Revolution shows that the former is only a shadowy comparison to the latter. Before the Industrial Revolution, work was performed, with exceptions, mostly in homes and on farms by forced labor (slaves or indentured servants) or family members, and the output they produced was often for employers', local, or family consumption. Over the centuries, economics and morality shifted, and laborers could choose where and for whom to work. These changes, in turn, would bring about many changes in how labor and other resources were employed in production.

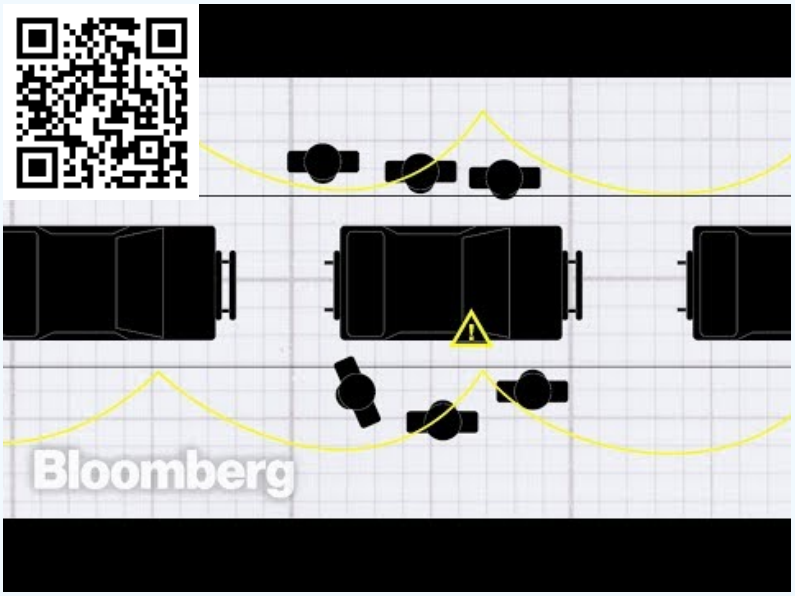
The two developments that transformed management were the revolutions in how and where goods were sold and the Industrial Revolution. The events combined led to selling a wider variety of goods to a wider variety of customers in more distant locations. These events also led to the establishment of vast companies. Competition required the development of economies of scale (i.e., increased production, lowering costs) and required coordination and specialization in the use of resources. The combination of coordination and specialization problems encouraged the development of management study as a distinct field.

In this chapter, we trace the evaluation of management from its origins in the ancient world to its form as a modern profession. Understanding how management came to be helps us understand its principles in a richer, more thorough context and understand how each concept we discuss is based on evidence produced by a wide range of scholars over many years in engineering, economics, psychology, sociology, and anthropology.

Case Study

TOYOTA CASE STUDY VIDEO





Toyota is an excellent company case study that provides insight into the importance of management. You will see how Toyota's Production System (TPS) has significantly impacted manufacturing and is often called a "lean" or "Just-In-Time" system. TPS is based on two main concepts that aim to eliminate waste and achieve efficiency. Toyota's "just in Time" management system changed how the world makes products.

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2.3: The Early Origins of Management

Learning Objectives

1. Be able to describe management in the ancient world.

Table 2.1 traces the development of management thought from the ancient world until the 19th century's Industrial Revolution.

Sumer, located in what is today southern Iraq and the first urban-based civilization, contained the genesis of management. Sumer had a flourishing merchant culture in which goods such as grains, livestock, perfumes, and pottery were sold to customers. Rather than bartering (using one good or service, not money, to pay for another good or service), the ancient Sumerians used ancient clay coins to pay. The sizes and shapes of coins represented different amounts of currency and signaled the types of goods for which they could be exchanged (George, 1972).

What made this level of trade and economic activity possible? The introduction of writing made it possible for merchants to keep track of various trades. And the development of a basic form of coins allowed for increased trade because a person wanting to obtain a good or service no longer had to find another person who wanted exactly the good or service he produced. Coordinating the activities of those who provided goods and those who wanted to purchase them often required coordination, one of the main functions of a manager.

Table 2.1

Early Contributor	Outcome
Sumerians	Writing and trade
Hamurabi	Written commands and controls
Nebuchadnezzar	Incentives
Ancient Egyptians	Division of labor, coordination, and span of control
Sun Tzu	Division of labor, communication, and coordination
Han Dynasty (206 BC-220AD)	Development of bureaucracy
Ancient Greeks	Division of labor
Romans	Standardization
Italians	Accounting, corporations, multinational corporations
John Florio	Management to English language

Source: Adapted from George (1972) and Wren & Bedeian (2009)

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Two additional contributions to the early development of management came from the Middle East. The idea of written laws and commands comes from the Babylonian king **Hammurabi** (1810 BC–1750 BC) (Wren & Bedeian, 2009). The Code of Hammurabi was a listing of 282 laws that regulated a wide variety of behaviors, including business dealings, personal behavior, interpersonal relations, and punishments. Law 104 was one of the first instances of accounting and the need for formal rules for managers and owners. The code also set wages for doctors, bricklayers, stonemasons, boatmen, herdsmen, and other laborers. The code did not, however, include the concept of incentive wages because it set wages at a fixed amount. The idea of incentives would come from another, much later, Babylonian king, **Nebuchadnezzar** (605 BC–c. 562 BC), who gave incentives to cloth weavers for production. Weavers were paid in food, and the more cloth they produced, the more food they were given (Wren & Bedeian, 2009).

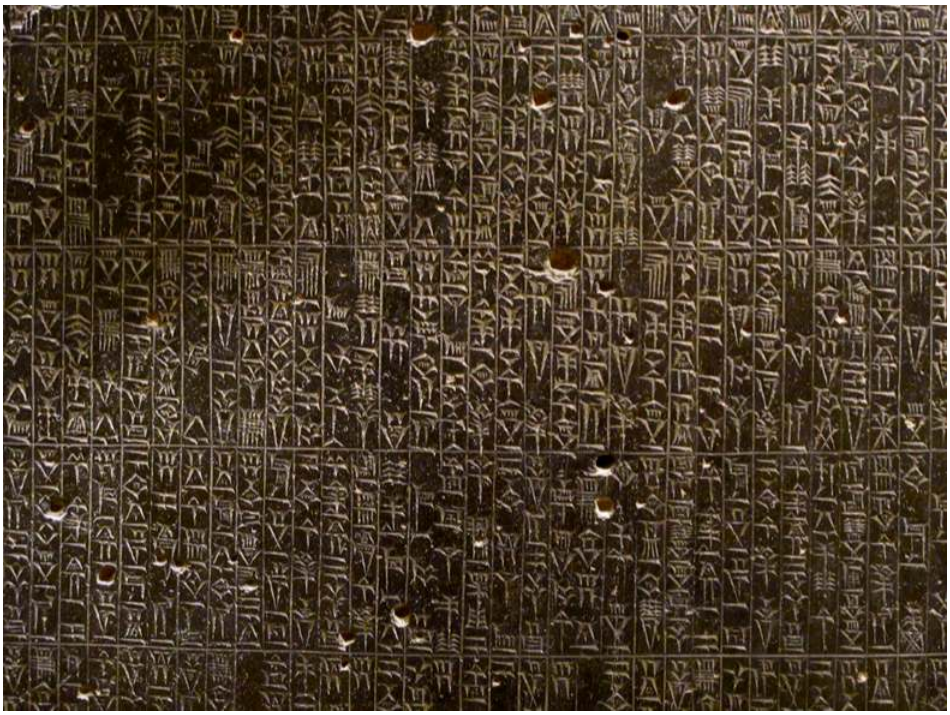


Exhibit 2.3 Hammurabi The Code of Hammurabi is a well-preserved ancient law code, created between 1810 BC and 1750 BC in ancient Babylon. It's a listing of 282 laws that regulated conduct on a wide variety of behaviors, including business dealings, personal behavior, interpersonal relations, and punishments. Law 104 was one of the first instances of accounting and the need for formal rules for owners and managers. (Gabrielle Barni / flickr/ Attribution 2.0 Generic (CC BY 2.0))

The ancient Egyptians made great strides in the building of the great pyramids. The ancient Egyptians were exceptional builders of canals, irrigation projects, and the pyramids, royal tombs whose size and complexity exceeded what the Greeks and Romans were able to build in later centuries (Wren & Bedeian, 2009). Although we are still uncertain about exactly how the pyramids were constructed, we have some idea that the process required a great number and diversity of slave laborers to construct them. Each laborer would have a different task. Some laborers were stonecutters; others were required to push and pull gigantic blocks of stone; others were required to grease the stones to reduce friction. In this process, we see the management principles of division of labor, coordination, and specialization. One individual supervised these groups of workers. In figuring out how best to handle the huge numbers of workers engaged in pyramid building, the ancient Egyptians also pioneered the concept of span of control: the number of workers a manager controls directly. Anticipating research on this issue in the far, far distant future, Egyptians found the ideal number of workers per supervisor to be ten. In addition, various overseers had the responsibility to compel workers to produce.

In Asia, the Chinese began to develop the idea of bureaucracy. Bureaucracy has roots in the early dynasties but only fully developed during the Han dynasty (206 BC–220 AD) (Fairbank, 1991). The idea was to train scholars in Confucian teachings and use those teachings to make decisions. Unlike modern bureaucracies, this system was not formal but relied upon the scholars' discretion. Another important development was the idea of meritocracy because selection for and promotion within a bureaucracy was based on a test of Confucian teaching.

The Greeks (800 BC–400 BC) and Romans (500 BC–476 AD) added several important steps in the development of management. Although neither empire was commercially oriented, both Greeks and Romans undertook a wide range of industrial projects, such as roads and aqueducts and established various guilds and societies that encouraged trade. The Greeks continued to develop the idea of division of labor based on Plato’s recognition of human diversity. The great Greek philosopher Socrates stressed the development of managerial skills such as creating an atmosphere of information sharing and analysis. The Romans’ contribution to management was standardization. Because the Romans needed to administer a vast empire, they needed standardization of measures, weights, and coins. Romans also saw the birth of the corporation in that many Roman companies sold stocks to the public.

Both Greece and Rome saw the continued pestilence of slavery, but due to economic changes that made slavery financially unfeasible, workers were gaining some degree of freedom. They still had masters who determined what jobs they could do and how those jobs should be done. After the collapse of the Roman Empire, there was a decline in European trade. Scholars refer to this time as the Dark or Middle Ages (500 AD–1000 AD) due to its location between the classical world of the Greeks and Romans and the world of the Renaissance. Although there was little trade or economic development in Europe during this period, trade flourished in the Muslim and Chinese worlds. Various travelers, such as 13th-century Italian merchant and explorer Marco Polo, provided readers with tales and goods from those booming societies.

? Concept Check

1. What were the contributions of the following groups to modern management: Sumerians, Babylonians, Egyptians, Chinese, Greeks, and Romans?

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2.4: The Italian Renaissance

Learning Objectives

1. Understand how the Italian Renaissance affected the progression of management theory.

In the 14th century, a movement of cultural change and astounding achievements in all spheres of life began in northern Italy. The **Italian Renaissance** saw the reintroduction of classical knowledge and the emergence of new knowledge and learning, much of which had economic and business implications. The emergence of the basic printing press allowed for these ideas and knowledge to spread throughout Europe. The combination of these factors led to a new emphasis on trade and wealth creation. In Italy, we see the emergence of modern enterprise and thus the need for people to run these new enterprises. As Muldoon and Marin (2012) wrote:

> *Their industrious countrymen were improving mining operations and developing the shipping and banking industries, which created the underlying conditions for the migration of the Italian Renaissance's commercial and intellectual culture from its native Italian soil (Haynes, 1991). The increasing scope and complexity of these commercial activities may well have prompted such inventions as double-entry bookkeeping and motivated companies to hire business managers to coordinate and direct their operations (Witzel, 2002).*

Organizations called corporations developed to carry out these commercial activities not only within a single country but among many countries. The first multinational corporations were located in Italy but had branches across Europe. The Florence Company of Bardi was a multinational bank that provided loans to various kings, including Edward III of England (Haynes, 1991). As their commercial enterprises flourished, the Italians provided manuals for merchants, which spread the ideas of commerce throughout Europe.

HISTORICAL INSIGHT

Luca Pacioli—A small-business owner and author



Luca Pacioli wrote a book for small-business owners that changed the course of history. His bookkeeping principles exist even today in modern technology. He lived with Leonardo Da Vinci and is nicknamed the Father of Accounting.

Concept Check

1. What was the Italian Renaissance?
2. What managerial legacy did it leave?

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2.5: The Industrial Revolution

Learning Objectives

1. Understand how the Industrial Revolution affected the progress of management theory.

The Renaissance and its ideals came to England, a backwater power at the time, during the reign of the Tudors (1485–1603) (Bridgen, 2001). It was during this time that the word *management* came into the English language from Italy through translations by John Florio, an Anglo-Italian member of Queen Elizabeth's court (Muldoon & Marin, 2012).

The emergence of British power would spawn the third major advance in management, the **Industrial Revolution**. As the British Empire's power grew, so did opportunities for trade. The 18th century saw the emergence of various international corporations, such as the Hudson's Bay Company and the East India Company, which conducted business globally (Bryce, 1968; Williams, 2015). The Hudson's Bay Company orchestrated the fur trade in Canada, where pelts were produced and shipped to England for trade in any part of the globe.

This further development of trade led to the establishment of the marketplace as a dominant means of organizing the exchange of goods. The market would coordinate the actions and activities of various participants, thus allowing resources to flow to their most efficient uses. One of the major intellectual leaders of this period was the economist and moral philosopher **Adam Smith** (Ross, 2010). In his masterpiece, *The Wealth of Nations*, Smith proposed the idea of specialization and coordination within corporations as a source of economic growth. Specialization and division of labor were Smith's major contributions to management thought (Smith, 1977). The division of labor meant that a worker specialized in performing one task that was part of a larger series of tasks, at the end of which a product would be produced. The idea of specialization of labor had several important outcomes. First, specialization drastically reduced the cost of goods. Second, it drastically reduced the need for training. Instead of learning every aspect of a task, workers needed to learn one portion of it. Third, coordinating all these different tasks required a greater emphasis on management.

Another significant part of the Industrial Revolution involved the development of the steam engine, which played a major role in improving the transportation of goods and raw materials. The steam engine lowered production and transportation costs, thus lowering prices and allowing products to reach more distant markets (Ashton, 1948). These factors played a role in the Industrial Revolution between 1760 and 1900 (Landes, 1999). The Industrial Revolution saw the emergence of the modern corporation, in which work, usually in a factory setting, was specialized and coordinated by managers.

Before the Industrial Revolution, goods and services lacked standardization and were produced at home in small batches (Wren & Bedeian, 2009). The Industrial Revolution saw work shift from family-led home production to factory production. These factories could employ hundreds and even thousands of workers who produced mass batches of standardized goods more cheaply than they could be produced in homes.

Factory sizes ranged from sections of cities and towns to whole cities, such as Lowell, Massachusetts, which consisted primarily of textile mills. As the Industrial Revolution progressed, small factories transformed into larger ones. In 1849, Harvester in Chicago employed 123 workers and was the largest factory in the United States. By the mid-1850s, the McCormick plant employed 250 workers who made 2,500 reapers per year. After the Great Chicago Fire, McCormick built a new plant with 800 workers and sales well above $1 million. In 1913, Henry Ford's plant in Dearborn employed up to 12,000 workers (Lacey, 1986). As factories grew in size, they provided chances for personnel fulfillment. Not only was the Hawthorne plant in Cicero, Illinois, a place of business, but it also featured sports teams and other social outlets (Hassard, 2012).

The Industrial Revolution shifted from England across the globe and eventually found its way into the United States. The United States saw several notable industrial revolutions from the 1820s until the 1860s. The transportation revolution included the construction of canals and, later, railroads that connected the different parts of the continent. The emergence of a telegraph system allowed for faster communication between various parts of the United States. Previously, it would take weeks to get information from New York to Boston; with the telegraph, it took minutes (Howe, 2008). The United States also saw the emergence of the Market Revolution. Previously to the Market Revolution, the U.S. economy had been based on small, self-subsistent yeoman farmers who would produce mostly homemade batches. Around 1830, easy credit and improved transportation established a broad

Market Revolution. This spawned various corporations that needed managers to coordinate various company offices (Bendickson, Muldoon, Liguori, & Davis, 2016).

After the period of the American Civil War, which ended in 1865, society witnessed the emergence of gigantic corporations that spanned the continent and factories that were like small cities (Bendickson, et al., 2016). Various problems emerged due to the change in production (similar to some of the issues we face today with the change from a manufacturing economy to an information economy). For example, how do you motivate workers? When families had control of their labor, it was easy to motivate workers because if family members did not produce, the family would not survive (Bendickson, et al., 2016). Yet, in the factory, workers could avoid work or even destroy machines if they disliked management's ideas. Each worker did the job differently, workers seemed to be selected without regard to whether they were suited for a particular job, management seemed to be whimsical, and there was little standardization of equipment.

Because production quantity remained unknown to both management and the worker, management did not explain how they determined what should be produced. Workers believed management determined what should be produced in haphazard ways (Wren & Bedeian, 2009). Workers believed that if too much were produced, management would eliminate workers because they believed there was a finite amount of work in the world. Workers would control production by punishing those workers who produced too much. For example, if a worker produced too much, his equipment would be damaged, or his coworkers would brutalize him. Methods of production were similarly haphazard. For example, if you learned how to shovel coal or cut iron, you learned multiple ways to perform the job, which did little for efficiency. Due to managerial inefficiency, various reformers in engineering urged for the establishment of management as a distinct field of study so that some order and logic could be brought to bear on how work was performed. Although this period witnessed enormous technological changes, management remained lagging (Wren, 2005).

? Concept Check

1. Why was Adam Smith's specialization of labor so important?
2. What was the economic and managerial legacy of the Industrial Revolution? What were the challenges?

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2.6: Taylor-Made Management

Learning Objectives

1. Understand how Frederick Winslow Taylor influenced management theory and how efficiency in management affects current management theory.

The economic upheaval of the Industrial Revolution also witnessed tremendous social upheavals. The U.S. professional classes (lawyers, administrators, doctors) had numerous concerns (McGerr, 2003). Because more and more people were now working in factories, there was the potential for creating a permanent underclass of poorly educated workers struggling to make a living. Many reformers felt that workers could be radicalized and actively try to better their working conditions, pay, and so on, thus disrupting the status quo of the labor markets, leading to strikes, riots, and violence. There were also concerns that money, influence, and pressure from big business were corrupting politics and overriding the will of the people.

The working class had many concerns about their work life. As mentioned earlier, there was a deep fear that work would disappear because of overproduction. There were also concerns over wages, job tenure, and workplace justice. And there was little in the way of standardization regarding how tasks were to be accomplished (Wiebe, 1967). When Frank Gilbreth, a pioneer in scientific management, was apprenticed as a bricklayer in 1885, he noted that he was taught three ways to lay bricks even though there was no need for more than one method.

In the factories, there was little concern for the workers' physical or mental health, and there were no breaks (Kanigel, 1997). Management and the workforce were in vicious contention with each other. Management would set the rate of work expected for the day, and in response, workers would band together to limit production. This action, called "soldiering," was a deliberate reduction of productivity on the part of the worker. Those workers who either over- or under-produced could expect that their equipment would be destroyed or that they themselves would be physically harmed. There were very few, if any, incentives provided by management. When managers sought to motivate workers, they did so through physical beatings and other punishments (Kanigel, 1997). Neither side had a reason to trust or cooperate with the other.

Compounding management problems, there was now a demand for managers, but there were few to fill this demand, as little training was provided. Before the Industrial Revolution, companies were largely in the hands of a family or a single owner/manager. As companies were getting larger and more complex and the exchange of goods was taking place across more and more regions, most business owners no longer had the expertise to run such vast geographic and financial enterprises (Wren & Bedeian, 2009). Yet, there was little in the way of management training or education. There were no established scholarly journals, such as the *Academy of Management Journal*, or practitioner journals, such as the *Harvard Business Review*. Nor were there business schools until 1881, when the Wharton School of Business at the University of Pennsylvania was established. Business education at this time consisted mostly of classes that taught secretarial work. Allied fields, such as psychology and sociology, were in their infancy. Any existing management education was mostly learned from lessons of history and literature. Although there were numerous examples of both excellent and terrible management, this education was anecdotal and not systematic.

The second phase of the Industrial Revolution commenced with establishing management as a distinct discipline of knowledge. Management's birth was not in Great Britain but in the United States (Wren & Bedeian, 2009). According to management consultant and educator Peter Drucker, the development of management was one of the United States' primary contributions to the world, along with the Declaration of Independence (Drucker, 1954). At the same time, management was established, sociology and psychology were developing, and the studies of history and economics were becoming more scientific and formal. Management also became formalized as a field of study using the scientific method. Drucker (1954) stated that the development of management was one of the factors that held off the development of radicalism in the United States because it increased productivity, lowered prices, and increased wages for workers. The success of scientific management lifted workers into the middle class. This crucial development has been attributed to one person in particular: **Frederick Winslow Taylor**.

Frederick Winslow Taylor (1856–1915) is known as the father of scientific management. Born to a prominent Quaker family in Pennsylvania, he initially planned to go to Harvard and become a lawyer or an executive until he suffered an eye injury that prevented him from reading (Kakar, 1970). With Harvard no longer an option, Taylor went to work at a family friend's factory, the Midvale Steel Company. Taylor took to the work and was promoted quickly from pattern maker to foreman and then to chief

engineer. During this time, he witnessed many acts aimed at limiting or reducing production—including having his tools destroyed—and it was he who coined the term *soldiering* to describe this deliberate act (Spencer, 1979). Rather than stand by and see such senseless acts affect the business he worked for, Taylor decided to take action. First, he went to the Stevens Institute of Technology to gain a background in engineering. Then, he took this knowledge and applied it to his work.

It is important to note that Taylor was not an original thinker. Many of his ideas came from other thinkers, especially the Englishman Charles Babbage (1791–1871) (Wrege & Greenwood, 1991). Taylor's contribution was that he advanced a total system of management by uniting the ideas and philosophies of many others. Although he may not have invented the scientific study of management, Taylor contributed to the use and synthesis of management by pioneering the use of time studies, division of labor based on function, cost-control systems, written instruction for workers, planning, and standardized equipment. Taylorism is still the basis of modern management, including the use of incentives. For example, Taylor stressed piecework production, meaning that workers were paid for how much they produced. Taylor also stressed the idea of differential piecework, meaning that if workers produced more than a certain amount, they would be paid more. Some compensation systems, such as sales commissions (i.e., being paid for how much you sell), have their bases in Taylor's work.

Taylor's major contribution was his prizing knowledge and science over tradition and rules of thumb. He broke down each act of production into its smallest parts and watched the best workers perform their jobs. Using a stopwatch to time the workers' actions, Taylor determined the most effective and efficient way to accomplish a given task. After breaking down each job into its components, Taylor then reconstructed them as they should be done. Taylor also developed time management studies to break down a person's workday into a series of activities. He then timed the execution of each activity to see which way was the quickest. He would rebuild the job using only the most efficient ways possible and then train workers to perform the task. By allowing workers to have rest periods throughout the day, he got workers to work faster and better without making them tired (Taylor, 1919).

Another of Taylor's significant contributions to the practice and profession of management was the concept of first-class work. When Taylor developed the notion of first-class work, he did so with the idea that workers should do as much work as they are physically and mentally capable of doing. Those who were not physically or mentally capable of keeping up with production and job demands were sent to different areas in the plant where they could work most effectively. First-class work was based not on physical strain or bursts of activity but on what a worker could realistically be expected to do.

Taylor also developed a task management system that allowed work to occur more efficiently and allowed for breaking up a supervisor's work so that he could function within a discrete area of activities. This focus allowed supervisors to better plan and control the activities for which their workers were responsible. Taylor believed that managers would become better at and more suited to analyzing their specific area of expertise, with authority that came from knowledge and skill and not simply from position or power. He also developed a cost-accounting method that became an integral part of daily planning and control, not something that was applied only to long-term analysis.

Taylorism was based on **four principles of management** illustrated in Table 2.2.

1. Principle 1: A manager should develop a rule of science for each aspect of a job. Following this principle ensures that work is based on objective data gathered through research rather than rules of thumb. For example, many people believed that allowing workers to take breaks would limit how much work could be done. After all, how could a worker produce if he was not working? Taylor changed this attitude through research demonstrating the benefits of breaks during the workday. Due to Taylor's research, we now enjoy coffee breaks.
2. Principle 2. Scientifically select and train each worker. When you get to the chapter on human resource management, you will see that Taylor's ideas still hold. Before Taylor's work, workers were selected based on favoritism, nepotism, or random choice. Taylor got his job at Midvale because the owner was his father's friend. Likewise, workers were usually selected for a particular job with little consideration of whether they were physically or mentally fit. Taylor changed this viewpoint by using research to find the best worker for the job.
3. Principle 3. Management and the workforce should work together to ensure that work is performed according to management principles. Taylor's observation went against the long-established principles of both management and the worker, who believed that each was the other's enemy. Rather than enmity, Taylor stressed cooperation and the need for a mutually beneficial working relationship.
4. Principle 4. Work and responsibility should be equally divided between management and workers. Previously, management set the directives, and workers obeyed or blocked them. Taylor believed that management and workers had joint responsibilities to

each other. Management's responsibility was to scientifically select the quantity of output for the day and provide a fair wage. In return, workers were to provide a fair day's work.

Table 2.2

Principles of Scientific Management
First, managers develop a science for each element of a man's work, which replaces the old rule-of-thumb method.
Second, managers scientifically select and then train, teach, and develop the workman, whereas in the past, he chose his own work and trained himself as best he could.
Third, managers cooperate heartily with the men to ensure all of the work is being done following the principles of the science that has been developed.
Fourth, there is an almost equal division of the work and the responsibility between the management and the workmen. The management takes over all work for which they are better fitted than the workmen, while in the past, almost all of the work and the greater part of the responsibility were thrown upon the men.

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Taylor's Acolytes

In addition to his groundbreaking work on scientific management, Taylor attracted a wide variety of talented individuals who aided him in his research. The first important individual was the mathematician **Carl G. Barth** (1860–1939). Barth made two notable contributions. The first was his work on employee fatigue. He attempted to find what aspects made a worker tired. The second was using the slide rule to calculate how much steel to cut. A slide rule is a ruler with a sliding central strip. It makes it possible to perform calculations rapidly and accurately. Barth developed one for cutting steel. Before Barth's work, workers were required to make difficult calculations to determine how much steel to cut. Usually, they guessed, leading to many errors and waste. With the slide rule, however, the number of errors decreased, as did the associated costs.

Another notable contributor to Taylor's methods was **Henry Gantt** (1861–1919), who developed the Gantt chart, which allowed for greater and more precise control over the production process. The Gantt chart, illustrated in Exhibit 2.4, tracked what was supposed to be done versus what was actually done. Gantt gives two principles for his charts: First, measure the time needed to complete an activity. Second, use the space on the chart to visually represent how much of an activity should have been completed in that given time. Today, the closest thing to a Gantt chart is a scheduling system. These charts allowed management to see how projects were progressing, take steps to see if they were on schedule, and monitor budget concerns (Wren & Bedeian, 2009). Gantt also pioneered the employee bonus system, in which employees were given a bonus if they completed their assigned tasks.

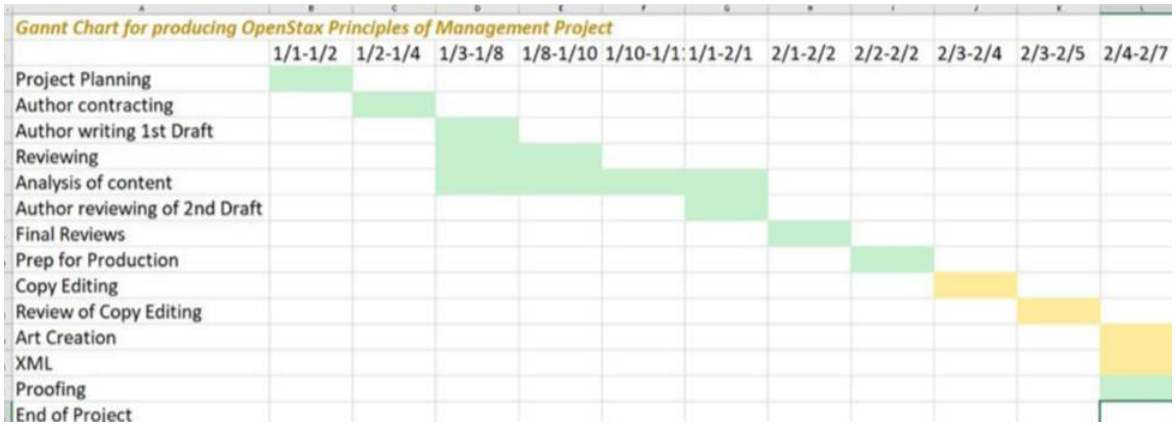


Exhibit 2.4 Gantt Chart Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license

The next key contributors to Taylor's system of scientific management were **Frank** (1868–1924) and **Lillian Gilbreth** (1878–1972), a couple that sometimes competed with and sometimes worked with Taylor (Krenn, 2011). Frank Gilbreth was a bricklayer who, before he heard of Taylor, had begun to find ways to limit his fatigue and lay down more bricks more efficiently. Unlike Taylor, Gilbreth was concerned with **motion studies**, in which he would film various motions while someone worked on the job.

To determine the most efficient way to perform a task, for example, Gilbreth reduced all hand motions into some combination of 17 basic motions. Gilbreth would then calculate the most efficient way of carrying out a job. Gilbreth filmed workers performing various jobs, including bricklaying, secretarial duties, and even a baseball game.

When working in construction, Gilbreth developed a management system that included rules about no smoking on the job, a ten-dollar prize for the best suggestion on how to improve labor, and a new training system to teach workers only the best way to perform a task. He developed a rule that all accident sites be photographed for use in future lawsuits. Gilbreth also prepared employees for their present and future positions by introducing a plan for promotion, training, and development. This system required charting promotion paths and record keeping for performance appraisals. He wanted to impress upon both workers and managers an understanding of fatigue and of how to improve pay. In his research, Gilbreth realized that monotony came not from the job itself, but from a worker's lack of interest in the job.

Lillian Gilbreth may not have originated the industrial psychology movement, but she brought a human element into the study and practice of management with her training and insight. She stated that to understand how to work better, we must understand the worker. Under scientific management, for example, understanding the worker became a fundamental principle in selecting workers for particular tasks and providing workers with incentives. The object was to develop each person to their fullest potential by strengthening their personal traits, special abilities, and skills. After Frank Gilbreth died, Lillian Gilbreth shifted her focus to increasing domestic efficiency and, in the process, designed the modern kitchen.

Taylor's Shortcomings

Taylor was a monomaniac on a mission to convert as many people to scientific management as possible. Yet despite his conviction and zealousness, Taylor's ideas were poorly understood, and he attracted more enemies than followers (Wrege & Greenwood, 1991). Taylor attracted enmity from unions because he was against them; he believed that unions separated workers from management. Taylor attracted enmity from the workers because he compared them to apes and other beasts of burden. And Taylor gained the distrust and enmity of management because he criticized them for their previous management failures. Taylor had a difficult personality and angered just about everyone.

Additionally, Taylor made several mistakes. Taylorism, despite its claims, was not an overall theory of management but a management system designed for frontline managers, those immediately supervising. He generally ignored strategy and implementation and thought of workers as machine tools to be manipulated rather than as human beings. Although he was aware of group pressures, he believed that monetary incentives could overcome group pressures. This oversight caused him to ignore the human aspects of handling workers—those that involved emotions, personality, and attitudes.

Although Taylor was certainly a flawed individual, these criticisms do not diminish his great contributions. Taylor dramatically changed management practices and created the modern management world. Future researchers did not replace Taylor but complemented him. What is remarkable about Taylor was not that he was right in his time and place but that his vision continues to have meaning and consequence even today (Locke, 1982). Management was truly Taylor-made.

Concept Check

1. List the contributions from Taylor and his associates.
2. How did Taylor change management?

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2.7: Administrative and Bureaucratic Management

Learning Objectives

1. Understand how bureaucratic and administrative management complement scientific management.

Writing at the same time as Taylor, **Henri Fayol** (1841–1925) and **Max Weber** (1864–1920) wrote complementary contributions to Taylor's four principles of scientific management framework. Whereas Taylor focused on frontline managers, those who handle workers, Fayol focused on top managers, who set strategy, and Weber focused on middle managers, who implement strategy. Although Taylor, Fayol, and Weber viewed management from different perspectives, each stressed the need for logical, rational systems to coordinate and control various types of enterprises.

Henri Fayol was a French mining executive who did most of his scholarly work after the Franco-Prussian War of 1870–1871 (Pryor & Guthrie, 2010). Fayol sought to develop a theory of administrative theory to increase efficiency to make the French economy stronger. Like Taylor, Fayol prized knowledge and experience over tradition. Unlike Taylor, however, Fayol focused on the overall management of the corporation rather than on individual tasks involved in carrying out a firm's business. Fayol focused on the overall social interactions [between or within what? A company and between companies? Or just within a company?] the company. An explanation for this difference is that Taylor was concerned with worker behavior and performance, the domain of the frontline manager. Fayol's focus was on the direction and coordination of the whole organization, which is the domain of the top manager (Wren & Bedeian, 2002). Another notable difference between the two men was that Taylor emphasized monetary compensation while Fayol recognized that people work for things other than money. Fayol's greatest contribution was that he sought to develop an approach that would aid top managers in setting the direction of their company.

Fayol presented three principal ideas about management. First, Fayol stressed the need for **unity of command: that** a company's management should speak with only one voice. Too often, under the Taylor system, a worker could have up to eight managers telling him how to perform a single task. Fayol stressed flexibility and recognized that authority must have responsibility attached to it. Accordingly, he stressed that management should maintain a unity of command, which ensured that each supervisor would explain to each of the employees in his group or division what aspect of his job to focus on. Each supervisor receives direction and information from the managers above him and passes that information down the chain of command (Fayol & Coubrough, 1930).

Fayol's second notable contribution was his recognition that workers focused on the social aspects of their jobs and the monetary compensation they received for doing the job. Taylor was well aware of the social aspects and pressures of work, but he sought to limit them. Fayol sought to use them for the business's benefit by stressing the development of an esprit de corps among workers. *Esprit de corps* refers to the cohesion of workers in a given unit or department, their commitment to their individual goals and their coworkers even in the face of adversity, and the pride that one feels by being a member of the organization. Fayol stressed communication as a means of creating esprit de corps and building commitment between personal and organizational goals.

A third important aspect of Fayol's work was his emphasis on the notion of justice within an organization and on the idea that an organization must decide issues fairly and equitably. In this way, managers could limit how their biases and personal feelings could influence their decisions.

As a whole, Fayol's ideas became what we call today Fayolism, or administrative theory. Fayolism consists of the **14 principles of management**. The 14 principles articulate the types of tasks managers should do. These 14 principles are still used today, but how they are used varies with a firm's use of technology and its culture. For example, a society that stresses individual outcomes will have different compensation systems than those focused on collective or group outcomes.

Fayol's 14 Principles of Management are:

1. Division of Work
2. Authority
3. Discipline
4. Unity of Command
5. Unity of Direction
6. Subordination of Individual Interest

7. Remuneration
8. Centralization
9. Scalar Chain
10. Order
11. Equity
12. Stability of Tenure of Personnel
13. Initiative—Employees should be given the necessary freedom to create and carry out plans.
14. Esprit de Corps

In addition to the 14 principles, Fayol identified the **five functions of management**:

1. Planning
2. Organizing
3. Staffing
4. Controlling
5. Directing

Each of these functions describes what managers should do on a day-to-day basis. The functions of management have changed over the years but have built upon Fayol's structure. Fayol fully described what a manager does and how each activity builds off the others.

Max Weber was a German sociologist who made significant complementary contributions to Taylor's management system as well as to the disciplines of economics and sociology. Weber did most of his work in the early 1890s and after 1904 when he started writing again. Sociologists hold Weber in such esteem that they regard him as a father of the field.

Weber (1922) stressed that social scientists could only understand collectives by understanding the actions of individuals. One of the individual behaviors that Weber did research was the types of leadership, identifying three types of leadership: charismatic domination (familial and religious) traditional domination (patriarchs, patrimonialism, and feudalism), and legal domination (modern law, state, and bureaucracy). Weber's contribution to management is the development and understanding of the legal rationalism model of leadership, which stresses the idea that leaders should make decisions based on law, precedent, and rule rather than whim. Weber went further than previous scholars and described why we saw the emergence of bureaucracies and other responses to industrialization.

According to Weber, the industrialization and transportation revolutions allowed the expanse of territories to be managed. The demands placed on managing larger and larger amounts of territory and people facilitated the need for bureaucracy, a system of fixed rules that are impartially administered. The expanding market economy required more efficient administration. At the same time, the emergence of communication and transportation improvements made improved administration possible.

The most notable contribution Weber provided to modern management was the creation of the **modern bureaucracy**. Weber's principles of the ideal bureaucracy are shown. Although the ancient Chinese had the first bureaucracy, the notable difference of Weber's bureaucracy is that decisions were made on a formal basis, rather than what a manager felt was correct. Weber stressed that knowledge, not birth circumstances, should be the basis of hiring and promotion within a bureaucracy. This attitude stood in sharp contrast to the policies and practices of the time in both Europe and the United States, which stressed birth circumstances. Weber also stressed that bureaucrats need to make decisions based on rules rather than whims. The word *bureaucracy* has negative connotations in the mind of the modern reader, but it was a vast improvement over what had occurred previously. Prior to Weber, management did not have to provide justification for why they made particular decisions, nor did they have to make decisions based on rules. Hiring and promotion were based on nepotism, very different from the modern meritocracy of today.

Principles of the Ideal Bureaucracy:

- Specialized roles
- Recruitment based on merit
- Uniform principles of placement, promotion, and transfer
- Careerism with systematic salary structure
- Hierarchy, responsibility, and accountability

- Subjection of official conduct to strict rules of discipline and control
- Supremacy of abstract rules
- Impersonal authority (i.e., office bearer does not bring the office with him)

There was, however, a downside to this new managerial approach. A bureaucracy could shield bureaucrats from personal responsibility and initiative. Even worse, it could make them willing participants in criminal activities. American sociologist Robert K. Merton noted that in a bureaucracy, rules could become more important than actual goals. Merton wrote:

> An effective bureaucracy demands reliability of response and strict devotion to regulations. (2) Such devotion to the rules leads to their transformation into absolutes; they are no longer conceived as relative to a set of purposes. (3) This interferes with ready adaptation under special conditions not clearly envisaged by those who drew up the general rules. (4) Thus, the very elements which conduce toward efficiency in general produce inefficiency in specific instances. Full realization of the inadequacy is seldom attained by members of the group who have not divorced themselves from the meanings which the rules have for them. These rules in time become symbolic in cast, rather than strictly utilitarian. (Merton, 1940)

Another particular issue was that bureaucracy placed so much emphasis on legal authority that it ignored several important factors. The first factor is that bureaucratic laws are often incomplete due to problems in communication and understanding. Contracts tend to be abandoned rather than completed. No contract or law can consider every outcome or event. The second issue is that bureaucratic organizations ignored interpersonal authority and often relied only on reason and logic for decision-making. Often people followed their managers because they personally liked them rather than the legal aspect of authority. Managers who use only legal authority to gain performance are limited in the performance they can garner (please see the chapter on leadership).

Both Fayol and Weber made significant contributions to management. Fayol's ideas are the basis of modern strategy, as he attempted to understand what activities managers should do. His ideas inform management in terms of the various roles that managers need to undertake to ensure the cooperation of workers. Likewise, Weber's ideas can be seen very clearly in human resource management in that managers should make decisions based on policy rather than whim. We can see that both men's ideas about structure and the line of authority continue to greatly influence management today.

? Concept Check

1. What were the contributions of Fayol and Weber?
2. How did their work compare to Taylor's?
3. What is the idea of line of authority and structure?

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2.8: Human Relations Movement

Learning Objectives

1. Understand how Elton Mayo influenced management theory, and how the human relations movement affects current management theory.

The human relations movement was a natural response to some of the issues related to scientific management and the under-socialized view of the worker that ignored social aspects of work. The key uniting characteristics of Taylor, Weber, and Fayol were the ideas of efficiency produced through either operational, legal, or administrative improvements. One of the principal assumptions was an emphasis on rationality (Sonnenfeld, 1985). According to scientific management, there was a logic to actions, and formal and knowledge authority were the principal catalysts of workplace motivation. Scientific management tended to downplay the effects of social pressures on human interaction (Wren & Bedeian, 2009). The human relations movement enhanced scientific management because it acknowledged that peoples' attitudes, perceptions, and desires play a role in their workplace performance. With this acknowledgment, for example, managers began to realize that settling disputes was more difficult than the scientific management approach had described.

The major difference between scientific management and human relations theory was that human relations theory recognized that social factors were a source of power in the workplace. While Taylor recognized the existence of social pressures in an organization, he sought to diminish them through pay: that is, compensating workers for production even though social pressure forced workers to reduce production. Fayol recognized the existence of social issues as well, but he emphasized commitment to the organization as a management technique rather than commitment of workers to each other or to their supervisor. Weber emphasized the rule of law and believed that laws and regulations would guide society and corporations. Yet, he did not spend enough energy recognizing the outcomes when rules break down. Fayol and Weber did not recognize the role of corporate culture in an organization and did not examine more closely why workers do not follow orders. The human relations movement added more of the social element to the study and theory of work (Wren & Bedeian, 2009).

Perhaps no research studies have been as misunderstood as the Hawthorne studies. The Hawthorne studies are the most influential, misunderstood, and criticized research experiment in all of the social sciences. The legend goes that **Elton Mayo** (1880–1949) researched, theorized, and developed human relations theory based on a 1924–1932 experiment he conducted at the Hawthorne plant of the Western Electric Company in Cicero Illinois. However, very little of the legend is true. The truth is more complicated and difficult to understand. Most textbooks claim that Mayo researched and conducted the studies. Yet this is fiction: the studies were commenced by scholars from the Massachusetts Institute of Technology. Mayo did not become involved until 1927. Nevertheless, it is Mayo's vision of Hawthorne that has come to dominate the literature.

The first phase of the Hawthorne studies was called the illumination study, and it sought to measure the impact of light on productivity. The study was inconclusive because too many variables other than light could have affected worker productivity. The researchers had difficulty understanding why productivity increased. The second phase of the study was called the relay-assembly-test-room, and these experiments were carried out in a room where researchers tested the effect that working conditions such as breaks, length of the workday, company-provided lunches, and payment method had on productivity. They selected six young female workers for a team that produced a phone relay switch. Each woman was young and unlikely to be married any time soon. One woman was assigned to gather the parts to make the switch, and each of the other five women was assigned to assemble one component of the phone relay. The researchers found that production increased regardless of what variable was manipulated. Nevertheless, soldiering still occurred during the experiment. After two workers were fired for a health issue and for getting married, production increased even more. The results surprised the researchers: they had expected to see a reduction but instead saw a consistent increase.

The Hawthorne executives turned to Elton Mayo, an Australian psychologist from Harvard University, to explain the puzzling results. Most of the controversy regarding the Hawthorne studies stems from Mayo's involvement. Mayo observed that production could be increased if management understood the role of individual workers' attitudes toward work and also took into account how group attitudes affected behavior. Mayo theorized that social issues and attention paid by the supervisor to these issues played a role in increasing production. The Hawthorne women were granted freedoms at work, including the ability to make suggestions

regarding their work conditions. Many of the Hawthorne women felt that they were special and that if they performed well on the relay assembly task, they would be treated better by the company's management. Additionally, the Hawthorne women became very friendly with each other. Their connection as a team and increased satisfaction in their work appeared to drive the women to greater performance. Yet the study found that financial incentives were also a clear driver of performance.

A third study, called the bank wiring room study, was conducted between 1931 and 1932. Rather than being selected to form a new group, participants in the bank wiring room study consisted of an already existing group, one that had a number of bad behaviors. Regardless of financial incentives, group members decided that they would only produce 6,000 to 6,600 connections a day. Workers who produced more were ostracized or hit on the arm to lower production. George Homans summarized the difference in the results of the relay assembly and the bank wiring room experiments:

"Both groups developed an informal social organization, but while the Bank Wiremen were organized in opposition to management, the Relay Assemblers were organized in cooperation with management in the pursuit of a common purpose. Finally, the responses of the two groups to their industrial situation were, on the one hand, restriction of output and, on the other, steady and welcome increase of output. These contrasts carry their own lesson."

Researchers found that cliques were formed that placed informal rules on the workers within a group. According to Homans, the workers also made a connection with one of the managers to control production. The discovery that management could ally themselves with the workforce to limit production was a notable contribution to management thought at the time. It suggests that managerial authority can break down if the manager disagrees with management's policy toward the workers.



Exhibit 2.5 The Hawthorne Electric Plant The Hawthorne studies examined how differences in working conditions (such as the timing and frequency of breaks) affected productivity. The term got its name from the experiments conducted at the Western Electric Hawthorne plant, illustrated here, located in Cicero, Illinois. These studies made popular the idea that attitudes affect performance. Credit: (public domain / flickr / This work is in the public domain in the United States because it was published in the United States between 1923 and 1977 without a copyright notice.)

What did the studies mean? On some level, they were meaningless because they proved little. Indeed, they have been called scientifically worthless. There were too many variables being manipulated; the sample size was too small; observations were collected at random; the Hawthorne researchers viewed the experiments through their own ideological lenses. They made mistakes in assuming that the wage was insignificant to the workers when, in reality, the wage was a significant driving force. Yet these criticisms ignore two major facts about the Hawthorne studies. The first is that the Hawthorne studies were the first to focus on the actual work life of the workers. This was a notable change in sociological research. The second fact is that the studies were intended to generate future research, and future research did discover that attitudes play a major role in determining workplace outcomes. Another important finding concerned the role of the supervisor. Many worker behaviors, attitudes, and emotions have their genesis in their supervisor's actions. Stress and fatigue can result from interactions with supervisors and coworkers; they are not just a response to less-than-ideal physical conditions. Finally, the Hawthorne studies showed that work motivation is a function of a wide variety of factors, including pay, social relationships, meaning, interests, and attitudes.

Barnard and the "Zone of Indifference"

Chester Barnard (1886–1961) was president of the New Jersey Bell Telephone Company (Gehani, 2002). As president, he was given an unusual amount of time to conduct research. Barnard had been a student at Harvard, and through his connections there, he found out about some of the current industrial research. His notable contribution was a book called *The Functions of the Executive*

(Chester, 1938). Barnard argued that an executive's purpose is to gain resources from members within the organization by ensuring that they perform their jobs and that cooperation exists between various groups within the organization. The other notable function of an executive is to hire and retain talented employees. Barnard defined a formal organization as consciously coordinated activities between two or more people but noted that such coordination is not likely to last for very long, a factor that may explain why many companies do not survive for long periods.

Barnard believed that executives best exerted authority through communication and the use of incentives. Communication within an organization should include definite channels of communication, and workers should have access to knowledge and information. Communication should be clear, direct, and honest so that members of an organization understand what is expected of them.

Barnard stressed several important outcomes regarding incentives. Some of his incentives reflected the human relations movement's occupation with social outcomes but tempered that movement's emphasis with an understanding that workers labored for pay. The first incentive was that there should be monetary and other material inducements to encourage better performance and production. The second incentive was that there should be nonmaterial incentives, such as recognition. The third incentive was that working conditions should be desirable. The fourth and final incentive was that workers should find pride and meaning in the work they do. Barnard believed that combining these elements would ensure cooperation and contributions from organizational members.

Although his findings on executive functions, communication, and incentives were significant, Barnard's largest contribution to the study of management involved what he called the "**zone of indifference**." The idea behind the zone of indifference is that workers will comply with orders if they are indifferent to them. This does not mean they have to agree with or support the orders. Rather, the zone of indifference suggests that workers must merely be indifferent to an order to follow it and that workers will follow orders due to an individual's natural tendency to follow authority. The zone of indifference must be reached through the following factors. First, the workers must have the ability to comply with the order. Second, workers must understand the order. Third, the order must be consistent with organizational goals. For management and the worker to cooperate, their interests must be aligned. Fourth, the order must not violate an individual's personal beliefs. Barnard provided an explanation for why workers do not always obey orders.

Follett and Conflict Resolution

Mary Parker Follett (1868–1933) found a way to use the tenets of the human relations movement to solve some of the problems with the scientific management framework. Follett was a political scientist from Harvard. (Her work on the Speaker of the House remains the classic in the field.) After graduating from Harvard, given the limited opportunities for women, she wound up in the field of social work. She continued to publish works on philosophy and political science, but, based on her social work connections, she soon found herself drifting over to the Taylor Society, a group dedicated to the principles of scientific management. Later in her career, she turned toward business. As Wren and Bedeian note, chronologically, she belonged to the scientific management era, but intellectually, she belonged to the human relations movement era (Wren & Bedeian, 2009).

Follett's work was largely ignored for years either because it was too original or because she was a woman; it is likely both factors played a role (Follett, 2003). Her ideas found little acceptance during the period because, in her time, management saw workers only as tools. Her focus was on how to reduce conflict. Follett's contribution was that she pointed out that management should take social concerns into account when dealing with workers.

She asked questions of management: How do we create unity of action? How do we help workers live fuller, richer lives? How do we contribute to group success? She argued that individual behavior is affected by and affects others in the group (Follett, 2003). Accordingly, she argued for the need for the principle of coordination to have a continuous interaction of all factors. What she meant was that both management and the worker should be able to understand the other's viewpoint. She sought to have management and the workers share power rather than have power over one another. In addition, unlike Weber and more in line with Taylor, she believed that power should be based on knowledge and expertise.

Follett also argued that there are several ways to resolve conflicts. The first is to have one party dominate the other. In **dominance**, one party dictates the terms of the arrangement. Follett recognized that very few situations in life allow this to be possible and that, for many companies, this approach is impossible without incurring social costs in terms of a disaffected workforce. The second solution is **compromise**. In a compromise, neither side gets exactly everything it wants, and the best each side can do is obtain a

result that each can agree too. The problem with this approach is that both sides give up what they really want and settle on what they can agree on. In a compromise, neither side is happy. The third way to solve conflict is **integration**, which occurs when each party states its preferences and attempts to reach an agreement. Follett provided an example of integration:

> In the Harvard Library one day, in one of the smaller rooms, someone wanted the window open. I wanted it shut. We opened the window in the next room where no one was sitting. (Gehani & Gehani, 2007)

This situation is a compromise. But look closely at it: Follett wanted the window closed, and her study partner wanted a window open. It just did not have to be in that room. Because they rearranged the problem, they came up with a solution that was satisfactory to both of them.

? Concept Check

What did the Hawthorne studies, Barnard, and Fayol contribute to management thought?

What did the works of Follett and Mayo contribute to management thought?

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2.9: Contingency and System Management

Learning Objectives

1. Understand how contingency and systems management transformed management thought.

The 1950s and 1960s saw the establishment of two schools that competed with and complemented the scientific management and human relations approaches. The first school of thought was the systems school. Some of the leaders of the systems school were Kenneth Boulding, Daniel Katz, Robert Kahn, and Ludwig von Bertalanffy. These men came from diverse disciplines (psychology, economics, sociology, and even biology) and attempted to explain how external factors determine managerial outcomes (Boulding, 1956). The major purpose behind systems school research was to understand the external conditions that organizations face and how to handle these conditions. The major overview of the systems theorists was that firms were an **open system**, that is, a system that interacts with its environment. In this case, the environment interacts with the firm in that it provides and accepts valued resources from the firm. For instance, Apple gathers the raw components of an iPhone. Through knowledge, procedures, tools, and resources, Apple takes these components and creates something of value for its customers, after which the consumer purchases the final product. In addition to providing financial resources to the firm, customers provide the firm with information—namely whether they like the product enough to purchase it.

The issue that systems management raises is that the managers' actions are the products of outside factors. For example, if you are a human resource manager, your actions are determined by employment law. The law requires corporations to have tests that are both consistent and reliable. When a manager violates this law, the firm can expect a lawsuit. Likewise, the laws of supply and demand determine the salary range a firm will offer job applicants. If the firm pays above market, it can expect its pick of the best candidates; if it is below market, it may have difficulty finding quality workers. From a strategic perspective, how firms compete against each other will be determined, in part, by the general external environment. For example, Apple's ability to sell iPhones is constricted by outside factors, including technology, suppliers, customers, and competitors. Every Android phone sold limits how many iPhones Apple can sell.

The other school that made a contribution to management thought during this time was the contingency school. Before the development of the **contingency school**, management scholars sought the one best way of managing. The contingency school changed this by proposing that there are no universal rules in management. External and internal factors create unique situations, and each situation requires a different response. What is the most appropriate response in one situation may not work in another. The key statement of the contingency school is "it depends." One of the major theorists in this school is **Joan Woodward**, a British scholar who did her work in the 1950s and 1960s (Woodward, 1970). She argued that contingencies, such as technology, affect how much training workers should receive. For instance, one of the major themes in management today is that workers should be well-trained. Woodward would argue that for low-tech jobs, this might not be the case, but training would be a necessity for jobs requiring quite a bit of technology.

Modern Management

From the 1970s to the present, we have seen the various management schools of thought interwoven. One of the major approaches in modern management is the development of managerial theories. When people hear the word theory, they usually assume that it refers to something impractical and disconnected from real life. The reality is that theory is a prediction and an explanation. Since the 1970s, the concept of theory has entered into the management literature, leading to more rigorous research (Sutton & Staw, 1995). The body of knowledge explored in this book about concepts such as strategy, organizational behavior, human resource management, and organizational theory has many roots in the 1970s. For example, when you get to job design, you will learn about the Hackman and Oldham model of job design, which was first proposed in 1975. Management has been enriched over the last 40 years by contributions from researchers in allied fields such as economics, psychology, and sociology.

Based on the theoretical research of the last 40 or so years, scholars such as Stanford University's Jeffrey Pfeffer have now proposed the idea for evidence-based management (Pfeffer & Sutton, 2006). The idea is to recommend managerial practices that have been tested. In many ways, this brings us back to Taylor and the need for science-based management. Once again, management thinkers are seeking to use formalized research to eliminate bad management techniques that have been recommended over the last several years.

Exhibit 2.6 indicates how each of the thinkers we discussed in this chapter relates to the others. From Taylor and others, we learned about the basic outcomes of human resource management, control, and some aspects of motivation. From Fayol and Barnard, we began to develop concepts related to strategic management and authority. Mary Parker Follett provided insights into leadership. Elton Mayo and his colleagues launched the field of organizational behavior, and their work continues to have an impact on the fields of motivation, stress, and job design. Weber gave us the start of organizational design and the importance of authority.

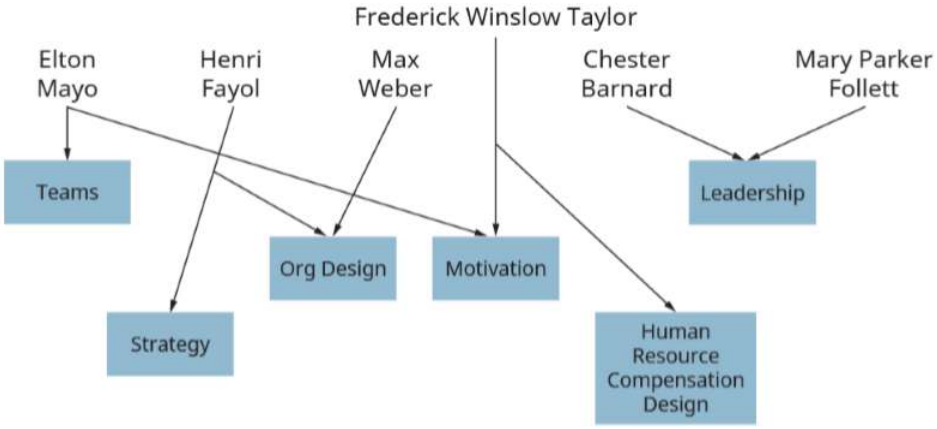


Exhibit 2.6 The Development of Management Thought (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

? Concept Check

1. What is the going contribution of systems and contingency management thought?
2. What is the idea of evidence-based management?

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2.10: Summary

Example 2.10.1

14 principles of management

Created by Henri Fayol.

Adam Smith

Adam Smith proposed the ideas of division of labor, specialization, and coordination within a corporation.

Carl G. Barth

Carl G. Barth (1860–1939), mathematician, developed a slide rule for calculating how much steel to cut.

Chester Barnard

Chester Barnard (1886–1961) argued that the executive purpose was to gain resources from members within the organization by ensuring that they perform their jobs and that cooperation exists between various groups within the organization.

Compromise

In a compromise, neither side gets what it wants. The best each side could get is what each can agree to.

Contingency school

The contingency school explained that there were no universal laws in management due to a wide variety of variables that influence relationships and create unique situations and that each situation required a different response.

Dominance

In dominance, one dictates the terms of the arrangement.

Elton Mayo

Elton Mayo (1880–1949) researched, theorized, and developed human relations theory based on an experiment at the Hawthorne plant on how to manage workers and improve production.

Five functions of management

Created by Henri Fayol: planning, organizing, staffing, controlling, and directing.

Frank and Lillian Gilbreth

Their major contribution was **motion studies.**

Frederick Winslow Taylor

Taylor is known as the father of scientific management.

Hammurabi

The Code of Hammurabi was a listing of 282 laws that regulated conduct on a wide variety of behaviors, including business dealings, personnel behavior, interpersonal relations, punishments, and a wide variety of other outcomes.

Henri Fayol

Fayol's administrative theory was the first general statement on management theory.

Henry Gantt

Henry Gantt (1861–1919) developed the Gantt chart, which allowed for the process of control to occur.

Industrial Revolution

The Industrial Revolution occurred between roughly 1760 and 1900 and saw the emergence of the modern factory.

Integration

In integration, both parties state their preferences and attempt to reach an agreement.

Italian Renaissance

The Italian Renaissance was a major leap of knowledge and learning that had economic and business implications.

Joan Woodward

A British scholar who did her work in the 1950s and 1960s. She argued that contingencies, such as technology, affect how much training workers should receive.

Mary Parker Follett

Mary Parker Follett (1868–1933) found a way to utilize the tenets of the human relations movement to solve some of the issues with scientific management.

Max Weber

Weber developed the idea that organizations should be formalized and legalistic in their operations.

Modern bureaucracy

Decisions should be made on a formal basis, rather than based on what a bureaucrat felt was correct. Weber stressed that knowledge, not birth circumstances, should be the basis of hiring and promotion within a bureaucracy.

Motion studies

Film studies of work.

Nebuchadnezzar

Nebuchadnezzar (605 BC–c. 562 BC) was a pioneer in the development of incentives in that he gave greater rewards to workers who were productive.

Open system

An open system interacts with the environment to gain resources.

Sun Tzu

Sun Tzu developed subdivisions, various rankings of authority, and the use of colors as coordination between units.

Unity of command

Unity of command stresses that each worker should have only one supervisor.

Zone of indifference

Workers would comply with orders if they were indifferent to them. This does not mean they have to agree with the orders. Rather the zone of indifference suggests that workers need merely to be indifferent to an order to follow it.

Summary of Learning Outcomes

2.2 The Early Origins of Management

1. Describe management in the ancient world.

We can track the concept of management from its development under the Sumerians. The Sumerians provided the concepts of writing and record-keeping that allowed for an urban economy to develop, leading to the establishment of small businesses. The

Egyptians helped to pioneer the ideas of specialization of labor, span of control, and hierarchy of command. Sun Tzu developed subdivisions, various rankings of authority, and coordination. The Greeks and Romans built forerunners of the modern corporation and guilds.

2.3 The Italian Renaissance

2. How did the Italian Renaissance affect the progression of management theory?

The Crusades and various travelers brought new knowledge from Muslim and Chinese societies. In addition, there was a rediscovery of trade throughout Europe. These factors led to the establishment of the Renaissance, which took place initially in Italy. The development of the printing press saw a distribution of these ideas across Europe. The Renaissance saw a reemergence of trade. The Renaissance also saw the development of the concept of the corporation and double-entry accounting. In fact, some of the first multinational corporations have their genesis in the Italian Renaissance.

2.4 The Industrial Revolution

3. How did the Industrial Revolution affect the progression of management theory?

The Industrial Revolution was a product of a combination of factors, including the spread of learning from the Italian Renaissance, the improvement of transportation, the Market Revolution, and technology. In addition, scholars such as Adam Smith provided support for the ideas of division of labor, specialization, and coordination within a corporation, allowing for the development of factories. This economic shift created the need for managers.

2.5 Taylor-Made Management

4. How did Frederick Winslow Taylor influence management theory, and how did efficiency in management affect current management theory?

Taylor was the man who added the scientific method to management. He developed the four principles of scientific management and the notion of time study. Henry Gantt developed his famous chart, which allowed managers to track what was done versus what was supposed to be done. Frank and Lillian Gilbreth added motion study to Taylor's time management.

2.6 Administrative and Bureaucratic Management

5. How do bureaucratic and administrative management complement scientific management?

Henri Fayol and Max Weber made notable contributions to the development of management thought. Fayol focused on top managers, and Weber focused on middle managers. Fayol's administrative theory was the first general statement on management theory. He stressed the need for collective action and vision from top management. Weber developed the idea that organizations should be formalized and legalistic in their operations.

2.7 Human Relations Movement

6. How did Elton Mayo influence management theory, and how did the human relations movement affect current management theory?

Elton Mayo noted the role of non-monetary motivators and attitudes in terms of the workplace. Barnard developed the idea of the zone of indifference. Follett developed ways to resolve conflict without the use of compromise or domination.

2.8 Contingency and System Management

7. How did contingency and systems management transform management thought?

Systems management developed the concept that management is an open system in that organizations interact with the environment to gain resources. Because organizations require resources from the environment, this constrains what managers can do. The contingency school explained that there were no universal laws in management because of a wide variety of variables that influence relationships. Modern management is based on theory.

Chapter Review Questions

1. What contributions did ancient civilizations make to management thought?
2. Describe the role of the Renaissance in shaping management thought.
3. How did the Industrial Revolution change business and the economy?
4. Describe scientific management. How was scientific management different from management techniques that came before it?
5. Who were the key contributors to scientific management?
6. Describe the Hawthorne studies. Was Elton Mayo a humanist?
7. What is the zone of indifference?
8. Describe Follett's concept of conflict resolution.
9. What does open systems say about management?
10. What is contingency management?

Managerial Decision Exercises

1. Which management scholar do you find to be the most influential and important, and how would you incorporate their approach into your managerial approach?
2. Based on the reading in this chapter, defend or attack this statement that would be given by a direct report: Management is unethical because it is about manipulating workers.
3. Which management scholar matches your viewpoints on the role of management?

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CHAPTER OVERVIEW

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3.1: Biblical Insight



Applying the Bible to Business

In this chapter, we will be looking at different leadership styles. The Bible provides insight into how to be a great leader. In Matthew 20:26, Jesus teaches us how to be great in the Kingdom of God: “Whoever wants to become great among you must be your servant.” Matthew 20:26.

In a world of self-promotion, Matthew 20:26 takes a different approach to accomplishing greatness. A servant leader focuses primarily on the empowerment and supporting the well-being of others. Traditional leadership styles generally involve a “top-down” approach to employees. In other words, the influence of position and authority is used over employees. The servant-leaders take a different approach to working with employees. A servant leader will put others first and promote employees to meet their highest potential.

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3.2: Introduction

Learning Objectives

After reading this chapter, you should be able to answer these questions:

1. What is the nature of leadership and the leadership process?
2. What are the processes associated with people coming to leadership positions?
3. How do leaders influence and move their followers to action?
4. What are the trait perspectives on leadership?
5. What are the behavioral perspectives on leadership?
6. What are the situational perspectives on leadership?
7. What does the concept “substitute for leadership” mean?
8. What are the characteristics of transactional, transformational, and charismatic leadership?
9. How do different approaches and styles of leadership impact what is needed now?

Exploring Managerial Careers

John Arroyo: Springfield Sea Lions

John Arroyo is thrilled with his new position as general manager of the Springfield Sea Lions, a minor league baseball team in. Arroyo has been a baseball fan all of his life, and now his diligent work and his degree in sports management are paying off.

Arroyo knew he had a hard act to follow. The general manager whom John replaced, “T.J.” Grevin, was a much-loved old-timer who had been with the Sea Lions since their inception 14 years ago. John knew it would be difficult for whoever followed T.J., but he didn’t realize how ostracized and powerless he would feel. He tried a pep talk: “I’m the general manager—the CEO of this ball club! In time, the staff will respect me.” [This is a poor example of a pep talk.]

After his first season ends, Arroyo is discouraged. Ticket and concession sales are down, and some longtime employees are rumored to be thinking about leaving. If John doesn’t turn things around, he knows his tenure with the Sea Lions will be short.

Questions: Is John correct in assuming that the staff will learn to respect him in time? What can John do to earn the loyalty of his staff and improve the ball club’s performance?

Outcomes: During the winter, John thinks long and hard about how he can earn the respect of the Sea Lions staff. Before the next season opener, John announces his plan: “So I can better understand what your day is like, I’m going to spend one day in each of your shoes. I’m trading places with each of you. I will be a ticket taker, a roving hot dog vendor, and a janitor. And I will be a marketer and an accountant—for a day. You, in turn, will have the day off so you can enjoy the game from the general manager’s box.” The staff laughs and whistles appreciatively. Then the Springfield mascot, Sparky the Sea Lion, speaks up: “Hey, Mr. Arroyo, are you going to spend a day in my flippers?” “You bet!” says John, laughing. The entire staff cheers.

John continues. “At the close of the season, we will honor a staff member with the T.J. Grevin Award for outstanding contributions to the Sea Lions organization. T.J. was such a great guy, it’s only right that we honor him.” The meeting ends, but John’s staff linger to tell him how excited they are about his ideas. Amidst the handshakes, he hopes that this year may be the best year yet for the Sea Lions.

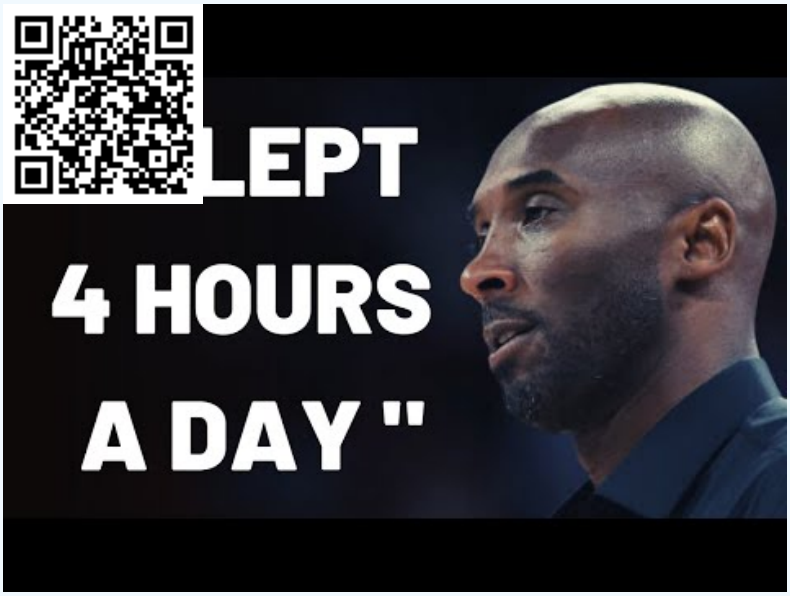
Sarah Elizabeth Roisland is the manager of a district claims office for a large insurance company. Fourteen people work for her. The results of a recent attitude survey indicate that her employees have extremely high job satisfaction and motivation. Conflict is rare in Sarah’s office. Furthermore, productivity measures place her group among the most productive in the entire company. Her success has brought the company’s vice president of human resources to her office to discover the secret to her success. Sarah’s peers, superiors, and workers all give the same answer: she is more than a good manager—she is an outstanding leader. She continually gets high performance from her employees and does so in such a way that they enjoy working for her.

There is no magic formula for becoming a good leader. There are, however, many identifiable reasons why some people are better and more effective leaders. Leaders, especially effective leaders, are not created by simply attending a one-day

leadership workshop. Yet effective leadership skills are not something most people are born with. You can become an effective leader if you are willing to invest the time and energy to develop all the “right stuff.”

According to Louise Axon, director of content strategy, and her colleagues at Harvard Business Publishing, in seeking management talent, *leadership* is an urgently needed quality in all managerial roles (Axon, Friedman, &Jordan, 2015). Good leaders and good leadership are rare. Harvard management professor John P. Kotter notes that “there is a leadership crisis in the U.S. today,” and the late USC Professor Warren Bennis states that many of our organizations are overmanaged and under-led (Labich, 1988; Bennis, 1989).

CASE STUDY VIDEO- Kobe Bryant's Dedication to Excellence



Kobe speaks about living a life of no regrets by working hard and having a strategy. Every aspect of Kobe’s life was centered on strategy and excellence. Bryant led by example in every area of one’s life.

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3.3: The Nature of Leadership

Learning Objectives

1. What is the nature of leadership and the leadership process?

The many definitions of leadership each have a different emphasis. Some definitions consider leadership an act or behavior, such as initiating structure so group members know how to complete a task. Others consider a leader to be the center or nucleus of group activity, an instrument of goal achievement who has a certain personality, a form of persuasion and power, and the art of inducing compliance (Bass, 1990). Some look at leadership in terms of the management of group processes. In this view, a good leader develops a vision for the group, communicates that vision, orchestrates the group's energy and activity toward goal attainment, "[turns] a group of individuals into a team," and "[transforms] good intentions into positive actions" (Bennis, 1989; Pickens, Jr., 1992).

Leadership is frequently defined as a social (interpersonal) influence relationship between two or more persons who depend on each other to attain certain mutual goals in a group situation (Hollander & Julian, 1969). Effective leadership helps individuals and groups achieve their goals by focusing on the group's *maintenance needs* (the need for individuals to fit and work together by having, for example, shared norms) and *task needs* (the need for the group to make progress toward attaining the goal that brought them together).



Exhibit 3.2 Joe Maddon, manager of the Chicago Cubs baseball team, is lauded for both his managerial and leadership skills. Maddon is a role model for managers competing in the business world. Managers can learn and profit from the Cubs skipper's philosophy of instilling an upbeat attitude with the team, staying loose but staying productive, and avoiding being the center of attention.

Leader versus Manager

The two dual concepts, leader and manager, leadership and management, are *not* interchangeable, nor are they redundant. The differences between the two can, however, be confusing. In many instances, to be a good manager, one needs to be an effective leader. Many CEOs have been hired in the hope that their leadership skills, their ability to formulate a vision and get others to "buy into" that vision, will propel the organization forward. In addition, effective leadership often necessitates the ability to manage—to set goals; plan, devise, and implement strategy; make decisions and solve problems; and organize and control. For our purposes, the two sets of concepts can be contrasted in several ways.

First, we define the two concepts differently. In previous chapters, we defined management as a process consisting of planning, organizing, directing, and controlling. Here, we define leadership as a social (interpersonal) influence relationship between two or more people who are dependent on each another for goal attainment.

Second, managers and leaders are commonly differentiated in terms of the processes through which they initially come to their positions. Managers are generally appointed to their roles. Although many organizations appoint people to positions of leadership, leadership per se is a relationship that revolves around the followers' acceptance or rejection of the leader (Hollander, 1964). Thus, leaders often emerge from events that unfold among members of a group.

Third, managers and leaders often differ in terms of the types and sources of the power they exercise. Managers commonly derive their power from the larger organization. Virtually all organizations legitimize the use of certain "carrots and sticks" (rewards and punishments) to secure their employees' compliance. In other words, by virtue of the position that a manager occupies (president, vice president, department head, supervisor), certain "rights to act" (schedule production, contract to sell a product, hire and fire) accompany the position and its place within the hierarchy of authority. Leaders can also secure power and the ability to exercise influence using carrots and sticks; however, it is much more common for leaders to derive power from followers' perception of their knowledge (expertise), their personality and attractiveness, and the working relationship that has developed between leaders and followers.

From the perspective of those under the leader's and manager's influence, the motivation to comply often has a different base. The subordinate to a manager frequently complies because of the sole authority of the manager and because of the carrots and sticks that managers have at their disposal. The followers of a leader comply because they want to. Thus, leaders motivate primarily through intrinsic processes, while managers motivate primarily through extrinsic processes.

Finally, it is important to note that while managers may be successful in directing and supervising their subordinates, they often succeed or fail because of their ability or inability to lead (Fiedler, 1996). As noted above, effective leadership often calls for the ability to manage, and effective management often requires leadership.

Concept Check

1. What is the nature of leadership and the leadership process?

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3.4: The Leadership Process

Learning Objectives

1. What are the processes associated with people coming to leadership positions?

Leadership is a process, a complex and dynamic exchange relationship built over time between leader and follower and between leader and the group of followers who depend on each other to attain a mutually desired goal (Hollandar & Julian, 1969). There are several key components to this “working relationship”: the leader, the followers, the context (situation), the leadership process per se, and the consequences (outcomes) (see Exhibit 3.3) (Stogdill, 1948). Across time, each component interacts with and influences the other components, and whatever consequences (such as leader–follower trust) are created influence future interactions. As any one of the components changes, so too will leadership (Murphy, 1941).

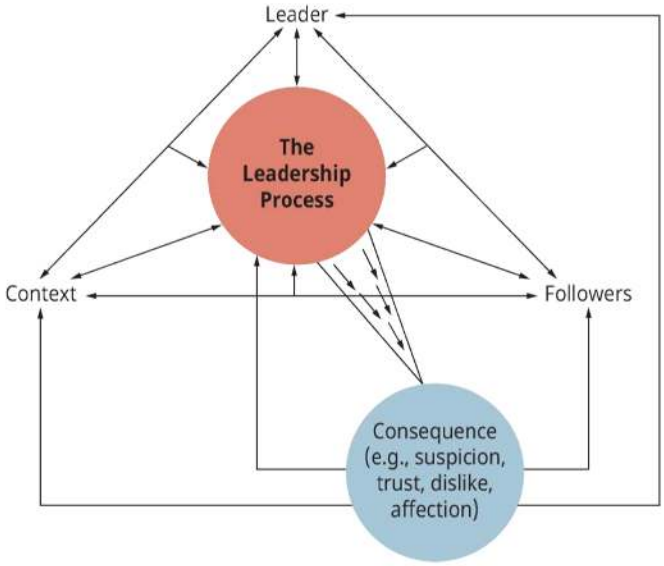


Exhibit 3.3 The Leadership Process (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The Leader

Leaders are people who take charge of or guide the activities of others. They are often seen as the focus or orchestrator of group activity, the people who set the group's tone so it can move forward to attain its goals. Leaders provide the group with what is required to fulfill its maintenance and task-related needs. (Later in the chapter, we will return to the “leader as a person” as part of our discussion of the trait approach to leadership.)



Exhibit 3.4 New York Philharmonic @ UN The New York Philharmonic, conducted by Music Director Alan Gilbert, paid special tribute in the General Assembly Hall to UN Secretary-General Ban Ki-moon as a tribute to his 10-year term. Gilbert is the formal leader of the New York Philharmonic.

The Follower

The follower is not a passive player in the leadership process. Edwin Hollander, after many years of studying leadership, suggested that the follower is the most critical factor in any leadership event (Hollander, 1964). It is, after all, the follower who perceives the situation and comes to define the needs that the leader must fulfill. In addition, it is the follower who either rejects leadership or accepts acts of leadership by surrendering his power to the leader to diminish task uncertainty, to define and manage the meaning of the situation to the follower, and to orchestrate the follower's action in pursuit of goal attainment.

The follower's personality and readiness to follow determine the style of leadership that will be most effective. For example, individuals with an internal locus of control are much more responsive to participative leadership styles than individuals with an external locus of control (House & Mitchell, 1974). Individuals with an authoritarian personality are highly receptive to the effectiveness of directive acts of leadership (Yukl, 1971). It is the followers' expectations, as well as their performance-based needs, that determine what a leader must do to be effective.

The strength of the follower's self-concept has also been linked to the leadership process. High-self-esteem individuals tend to have a strong sense of self-efficacy, that is, a generalized belief they can be successful in difficult situations. They, therefore, tend to be strongly motivated to perform and persist in the face of adversity (Gardner & Pierce, 1998). The high-self-esteem follower tends to be responsive to participative styles of leadership. Low-self-esteem individuals, who doubt their competence, worthiness, and ability to succeed in difficult situations, function better with supportive forms of leadership. This helps them deal with the stress, frustration, and anxiety that often emerge with difficult tasks. Followers without a readiness to follow, limited by their inability to perform and lack of motivation and commitment, usually need more directive forms of leadership (Hersey & Blanchard, 1988).

Follower behavior plays a major role in determining what behaviors leaders engage in. For example, followers who perform at high levels tend to cause their leaders to be considerate in their treatment and to play a less directive role. Followers who are poor performers, on the other hand, tend to cause their leaders to be less warm toward them and to be more directive and controlling in their leadership style (Greene, 1975).

The Context

Situations make demands on a group and its members, and not all situations are the same. Context refers to the situation that surrounds the leader and the followers. Situations are multi-dimensional. We discuss the context as it pertains to leadership in greater detail later in this chapter, but for now, let's look at it in terms of the task and task environment that confront the group. Is the task structured or unstructured? Are the goals of the group clear or ambiguous? Is there agreement or disagreement about goals? Is there a body of knowledge that can guide task performance? Is the task boring? Frustrating? Intrinsically satisfying? Is the environment complex or simple, stable or unstable? These factors create different contexts within which leadership unfolds, and each factor places a different set of needs and demands on the leader and the followers.

The Process

The process of leadership is separate and distinct from the leader (the person who occupies a central role in the group). The process is a complex, interactive, dynamic working relationship between leader and followers. This working relationship, built over time, is directed toward fulfilling the group's maintenance and task needs. Part of the process consists of an exchange relationship between the leader and follower. The leader provides a resource directed toward fulfilling the group's needs, and the group gives compliance, recognition, and esteem to the leader. To the extent that leadership is the exercise of influence, part of the leadership process is captured by the surrender of power by the followers and the exercise of influence over the followers by the leader (Hollander & Julian, 1969). Thus, the leader influences the followers and the followers influence the leader, the context influences the leader and the followers, and both leader and followers influence the context.

The Consequences

Several outcomes or consequences of the leadership process unfold between leader, follower, and situation. At the group level, two outcomes are important:

- Have the group's maintenance needs been fulfilled? That is, do members of the group like and get along with one another, do they have a shared set of norms and values, and have they developed a good working relationship? Have individuals' needs

been fulfilled as reflected in attendance, motivation, performance, satisfaction, citizenship, trust, and maintenance of the group membership?

- Have the group's task needs been met? That is, there are also important consequences of the leadership process for individuals: attendance, motivation, performance, satisfaction, citizenship, trust, and maintenance of their group membership.

The leader–member exchange (LMX) theory of the leadership process focuses attention on consequences associated with the leadership process. The theory views leadership as consisting of several dyadic relationships linking the leader with a follower. A leader-follower relationship tends to develop quickly and remains relatively stable over time. The quality of the relationship is reflected by the degree of mutual trust, loyalty, support, respect, and obligation. High- and low-quality relationships between a leader and each of his followers produce in and out groups among the followers. Members of the in-group become key players, and high-quality exchange relationships tend to be associated with higher levels of performance, commitment, and satisfaction than low-quality exchange relationships (Graen & Wakabayashi, 1994). Attitudinal similarity and extroversion appear to be associated with a high-quality leader-member relationship (Schriesheim et al., 2000).

The nature of the leadership process varies substantially depending on the leader, the followers, and the situation and context. Thus, leadership is the function of an interaction between the leader, the follower, and the context.

The leadership context for the leader of a group of assembly line production workers differs from the context for the leader of a self-managing production team and from the context confronted by the lead scientists in a research laboratory. The leadership tactics that work in the first context might fail miserably in the latter two.

Catching the Entrepreneurial Spirit

How a Start-Up Finds the Right Leader

Startups, by their very nature, require innovation to bring new products and services to market. Along with establishing a new brand or product, the leader has to develop the relationships and processes that make a company succeed or risk its early demise. While leading an established firm has its challenges, a start-up requires even more from a leader.

How critical is leadership to a start-up? Ask the four co-founders of the now-defunct PYP (Pretty Young Professionals), a website founded as a source of information for young professional women. What began as four young professional women working on a new start-up ended with hurt feelings and threats of legal action. In 2010, Kathryn Minshew, Amanda Pouchot, Caroline Ghosn, and Alex Cavoulacos decided to create the website, and Minshew was named CEO (Cohan, 2011a). Lines blurred about Minshew's authority and the website's ultimate look, feel, and direction. Ideals about shared leadership, where the company was going, and how it would get there ultimately got lost in the power shuffle. By June 2011, passwords were changed and legal actions began, and in August Minshew and Cavoulacos left altogether (Cohan, 2011b).

When the legal haggling from PYP was over, Alex Cavoulacos and Kathryn Minshew, joined by Melissa McCreery, tried again. But this time, rather than hoping for the best, they put a leadership plan in place. Minshew was named CEO of the new start-up, The Daily Muse, with Cavoulacos as chief operating officer and McCreery as editor-in-chief. Rather than trusting to luck, the three co-founders based their team positions on strengths and personalities. Cavoulacos and McCreery agreed that Minshew's outgoing personality and confidence made her the proper choice as CEO (Casserly, 2013).

No trait guarantees a person can lead a start-up from idea to greatness, but a survey of successful entrepreneurs shows some common traits. According to David Barbash, a partner at Boston-based law firm Posternak Blankstein & Lund LLP, personality is paramount: "You can have great technology but if you're not a great communicator it may die in the lab." A startup needs a leader who is confident and willing, if not eager, to face the future. According to Michelle Randall, a principal of Enriching Leadership International, start-up CEOs have to be willing to fundraise and not be too proud to beg. Peter Shankman, an entrepreneur and angel investor, says leaders must be willing to make the hard decisions, even risking being the bad guy. (Casserly, 2013)

Gary Vaynerchuk credits his success to six factors. An angel investor, social media marketer, and early social media adopter, Vaynerchuk leveraged YouTube in its early years to market wine from the family's liquor store, eventually increasing sales from $3 million to $60 million a year (Clifford, 2017). Gary believes good leaders recognize that they don't dictate to the market but rather respond to where it is going. They respect and believe in other people and have a strong work ethic, which

Vaynerchuk called a “lunch pail work ethic”: they are willing to put in long hours because they love the work, not the perks. He also stresses that he loves technology and doesn’t fear it, is obsessed with the youth of today, and is optimistic about people and the future of humanity (Vaynerchuk, 2017).

Leading a startup requires more than simple management. It requires the right leader for the right company at the right time, which means matching the right management skills with the proper flexibility and drive to keep it all together and moving in the right direction.

1. Why would start-up leaders need different leadership qualities than someone managing an established firm?
2. Vaynerchuk has been quoted as saying that if you live for Friday, get a different job. How does this apply to successful entrepreneurs?

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? Concept Check

1. What are the processes associated with people coming to leadership positions?

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3.5: Types of Leaders and Leader Emergence

Learning Objectives

1. How do leaders influence and move their followers to action?

Leaders hold a unique position in their groups, exercising influence and providing direction. Leonard Bernstein was part of the symphony, but his role as the New York Philharmonic conductor differed dramatically from that of the other symphony members. Besides conducting the orchestra, he created a vision for the symphony. In this capacity, leadership can be seen as a differentiated role and the nucleus of group activity.

Organizations have two kinds of leaders: formal and informal. A **formal leader** is that individual who is recognized by those outside the group as the official leader of the group. Often, the formal leader is appointed by the organization to serve in a formal capacity as an agent of the organization. Jack Welch was the formal leader of General Electric, and Leonard Bernstein was the formal leader of the symphony. Practically all managers act as formal leaders as part of their assigned role. Organizations that use self-managed work teams allow team members to select the individual who will serve as their team leader. When this person's role is sanctioned by the formal organization, these team leaders become formal leaders. Increasingly, leaders in organizations will be those who "best sell" their ideas on how to complete a project—persuasiveness and inspiration are important ingredients in the leadership equation, especially in high-involvement organizations (Conger, 1993).

Informal leaders, by contrast, are not assigned by the organization. The **informal leader** is that individual whom members of the group acknowledge as their leader. Athletic teams often have informal leaders, individuals who exert considerable influence on team members even though they hold no official, formal leadership position. In fact, most work groups contain at least one informal leader. Just like formal leaders, informal leaders can benefit or harm an organization depending on whether their influence encourages group members to behave consistently with organizational goals.

As we have noted, the terms *leader* and *manager* are not synonymous. Grace Hopper, retired U.S. Navy admiral, draws a distinction between leading and managing: "You don't manage people, you manage *things*. You lead *people"* (Pickens, 1992). Informal leaders often have considerable leverage over their colleagues. Traditionally, the roles of informal leaders have not included the total set of management responsibilities because an informal leader does not always exercise the functions of planning, organizing, directing, and controlling. However, high-involvement organizations frequently encourage their formal and informal leaders to exercise the full set of management roles. Many consider such actions necessary for self-managing work teams to succeed. Informal leaders are acknowledged by the group, and the group willingly responds to their leadership.

Paths to Leadership

People come to leadership positions through two dynamics. In many instances, people are put into positions of leadership by forces outside the group. University-based ROTC programs and military academies (such as West Point) formally groom people to be leaders. We refer to this person as the **designated leader** (in this instance, the designated and formal leader are the same person). **Emergent leaders**, on the other hand, arise from the dynamics and processes that unfold within and among a group of individuals as they endeavor to achieve a collective goal.

A variety of processes help us understand how leaders emerge. Gerald Salancik and Jeffrey Pfeffer (1977) observe that power to influence others flows to those individuals who possess the critical and scarce resources (often knowledge and expertise) that a group needs to overcome a major problem. They note that the dominant coalition and leadership in American corporations during the 1950s was among engineers, because organizations were engaged in competition based on product design. The power base in many organizations shifted to marketing as competition became a game of advertising aimed at differentiating products in the consumer's mind. About 10–15 years ago, power and leadership once again shifted, this time to people with finance and legal backgrounds because the critical contingencies facing many organizations were mergers, acquisitions, hostile takeovers, and creative financing. Thus, Salancik and Pfeffer reason that power and, therefore, leadership flow to those individuals who can help an organization or group [overcome its critical contingencies]. As the challenges facing a group change, so too may the flow of power and leadership.

Many leaders emerge out of the needs of the situation. Different situations call for different configurations of knowledge, skills, and abilities. A group often turns to the member who possesses the knowledge, skills, and abilities that the group requires to achieve its goals (Murphy, 1941). People surrender their power to individuals they believe will make meaningful contributions to attaining group goals (Smircich & Morgan, 1982). The individual to whom power is surrendered is often a member of the group who is in good standing. As a result of this member's contributions to the group's goals, he has accumulated *idiosyncrasy credits* (a form of competency-based status). These credits give the individual a status that allows him to influence the group's direction as it works to achieve its goals (Hollander, 1964).

It is important to recognize that the traits possessed by certain individuals contribute significantly to their emergence as leaders. Research indicates that people are unlikely to follow individuals who, for example, do not display drive, self-confidence, knowledge of the situation, honesty, and integrity.

Leadership as an Exercise of Influence

As we have noted, leadership is the exercise of influence over those who depend on one another to attain a mutual goal in a group setting. But *how* do leaders effectively exercise this influence? *Social or (interpersonal) influence* is one's ability to effect a change in the motivation, attitudes, and/or behaviors of others. *Power*, then, essentially answers the "how" question: How do leaders influence their followers? The answer often is that a leader's social influence is the source of his power.

French and Raven provide us with a useful typology that identifies the sources and types of power that may be at the disposal of leaders:

- ***Reward power***—the power a person has because people believe that he can bestow rewards or outcomes, such as money or recognition that others desire
- ***Coercive power***—the power a person has because people believe that he can punish them by inflicting pain or by withholding or taking away something that they value
- ***Referent power***—the power a person has because others want to associate with or be accepted by him
- ***Expert power***—the power a person has because others believe that he has and is willing to share expert knowledge that they need (The concept of *resource power* extends the idea of expert power to include the power that a person has because others believe that he possesses and is willing to share resources, such as information, time, or materials that are needed.)
- ***Legitimate power***—the power a person has because others believe that he possesses the "right" to influence them and that they ought to obey. This right can originate in tradition; in the charisma or appeal of the person; and in laws, institutional roles within society, moralistic appeal, and rationality (that is, logical arguments, factual evidence, reason, and internally consistent positions) (French & Raven, 1959).

Not all forms of power are equally effective (see Exhibit 3.5), nor is a leader's total power base the simple sum of the powers at his disposal. Different types of power elicit different forms of compliance: Leaders who rely on coercive power often alienate followers who resist their influence attempts. Leaders who rely on reward power develop followers who are very measured in their responses to [what?]; the use of rewards often leads people to think in terms of "How much am I getting?" or "How much should I give?" or "Am I breaking even?" The use of referent power produces identification with the leader and his cause. The use of rationality, expert power, and/or moralistic appeal generally elicits commitment and the internalization of the leader's goals (Etzioni, 1961).

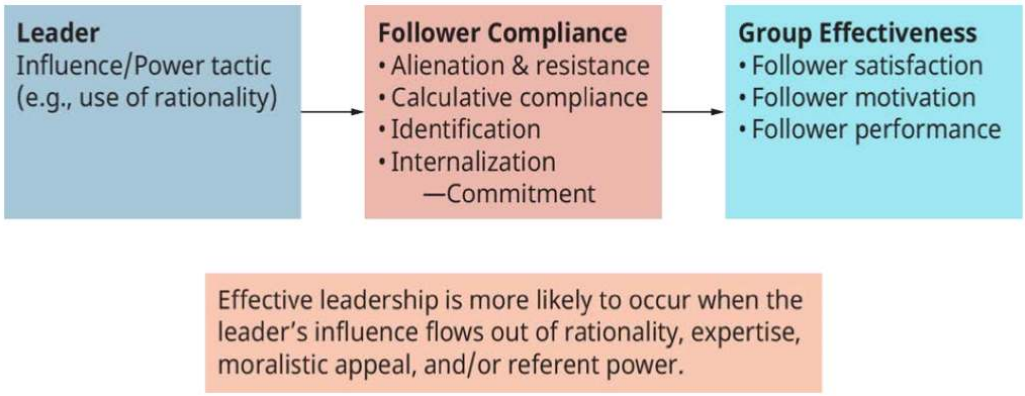


Exhibit 3.5 The Leader-Follower Power Relationship

Leaders who use referent and expert power commonly experience a favorable response in terms of follower satisfaction and performance. Research suggests that rationality is the most effective influence tactic in terms of its impact on follower commitment, motivation, performance, satisfaction, and group effectiveness (Yukl & Tracey, 1992).

Reward and legitimate power (that is, relying on one's position to influence others) produce inconsistent results. Sometimes, these powers lead to follower performance and satisfaction, yet they also sometimes fail. Coercive power can result in favorable performance, yet follower and resistance dissatisfaction are not uncommon.

Good leaders, whether formal or informal, develop many sources of power. Leaders who rely solely on their legitimate power and authority seldom generate the influence necessary to help their organization and its members succeed. In the process of building their power base, effective leaders have discovered that the use of coercive power tends to dilute the effectiveness of other powers, whereas the development and use of referent power tends to magnify the effectiveness of other forms of power. A compliment or reward from a person we like generally has greater value than one from someone we dislike, and punishment from someone we love (such as "tough love" from a parent) is less offensive than the pain inflicted by someone we dislike (Hinkin & Schriesheim, 1990).

In sum, one key to effective leadership, especially as it pertains to the exercise of social and interpersonal influence, relates to the type of power employed by the leader. Overall leader effectiveness will be higher when people follow because they want to follow. This is much more likely to happen when the leader's influence flows out of intrinsic such as rationality, expertise, moralistic appeal, and/or referent power.

Leadership is also about having a vision and communicating that vision to others in such a way that it provides meaning for the follower (Bennis, 1989). Language, ritual, drama, myths, symbolic constructions, and stories are some of the tools leaders use to capture the attention of their "followers-to-be" to evoke emotion and to manage the meaning "of the task (challenges) facing the group" (Smircich & Morgan, 1982). These tools help the leader influence their followers' attitudes, motivation, and behavior.

Influence-Based Leadership Styles

Many writers and researchers have explored how leaders can use power to address the needs of various situations. One view holds that in traditional organizations, members expect to be told what to do and are willing to follow highly structured directions. However, individuals attracted to high-involvement organizations want to make their own decisions, expect their leaders to allow them to do so, and are willing to accept and act on this responsibility. This suggests that a leader may use and employ power in a variety of ways.

The Tannenbaum and Schmidt Continuum

In the 1950s, Tannenbaum and Schmidt (1958) created a continuum (see Exhibit 3.6) along which leadership styles range from authoritarian to extremely high levels of worker freedom. Subsequent to Tannenbaum and Schmidt's work, researchers adapted the continuum by categorizing leader power styles as *autocratic* (boss-centered), participative (workers are consulted and involved), or *free-rein* (members are assigned the work and decide on their own how to do it; the leader relinquishes the active assumption of the role of leadership (Davis & Newstrom, 1985).

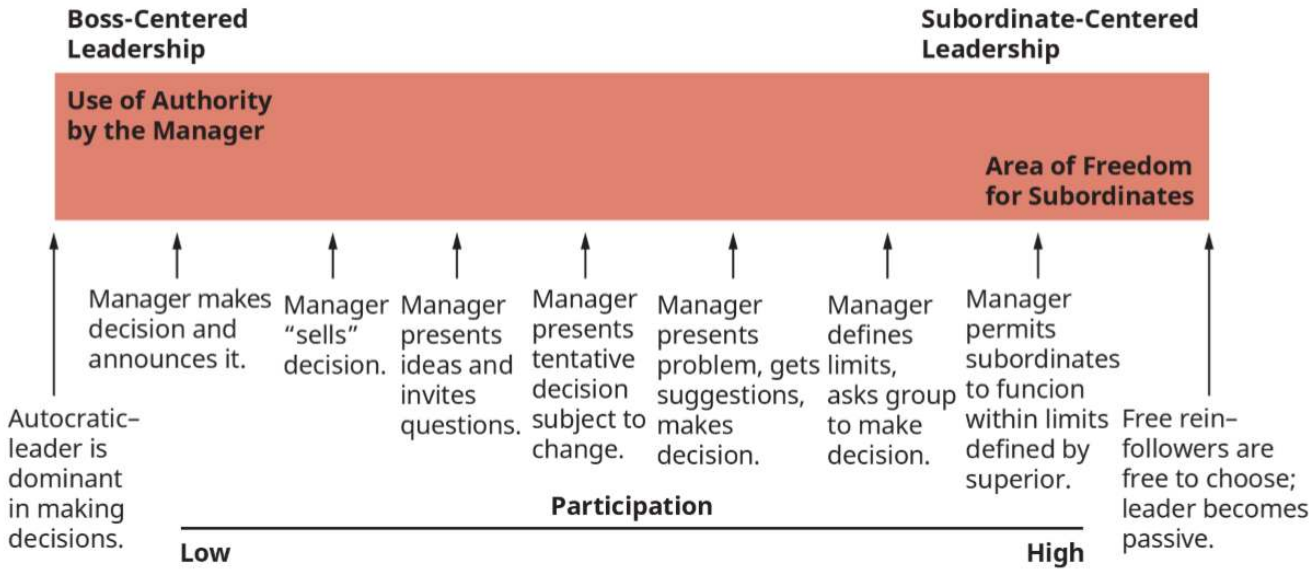


Exhibit 3.6 Tannenbaum and Schmidt's Leadership Continuum Source: Modified from R. Tannenbaum and W. H. Schmidt. May—June 1971. How to choose a leadership pattern. Harvard Business Review, 167.

Theory X and Theory Y Leaders

McGregor's (1957) Theory X and Theory Y posits two different sets of attitudes about the individual as an organizational member. Theory X and Y thinking gives rise to two different styles of leadership. The *Theory X leader* assumes that the average individual dislikes work and is incapable of exercising adequate self-direction and self-control. Consequently, they exert a highly controlling leadership style. In contrast, *Theory Y leaders* believe that people have creative capacities and the ability and desire to exercise self-direction and self-control. They typically allow organizational members significant discretion in their jobs and encourage them to participate in departmental and organizational decision-making. Theory Y leaders are much more likely to adopt involvement-oriented approaches to leadership and organically designed organizations for their leadership group.

Theory X and Theory Y thinking and leadership are not strictly an American phenomenon. Evidence suggests that managers from different parts of the global community commonly hold the same view. A study of 3,600 managers from 14 countries reveals that most of them held assumptions about human nature that could best be classified as Theory X (Haire et al., 1966). Even though managers might publicly endorse the merits of participatory management, most doubted their workers' capacities to exercise self-direction and self-control and contribute creatively (Miles, 1975).

Directive/Permissive Leadership Styles

Contemplating the central role of problem-solving in management and leadership, Jan P. Muczyk and Bernard C. Reimann of Cleveland State University offer an interesting perspective on four different leadership styles (see Exhibit 3.7) that revolve around decision-making and implementation processes (Muczyk & Reimann, 1987).

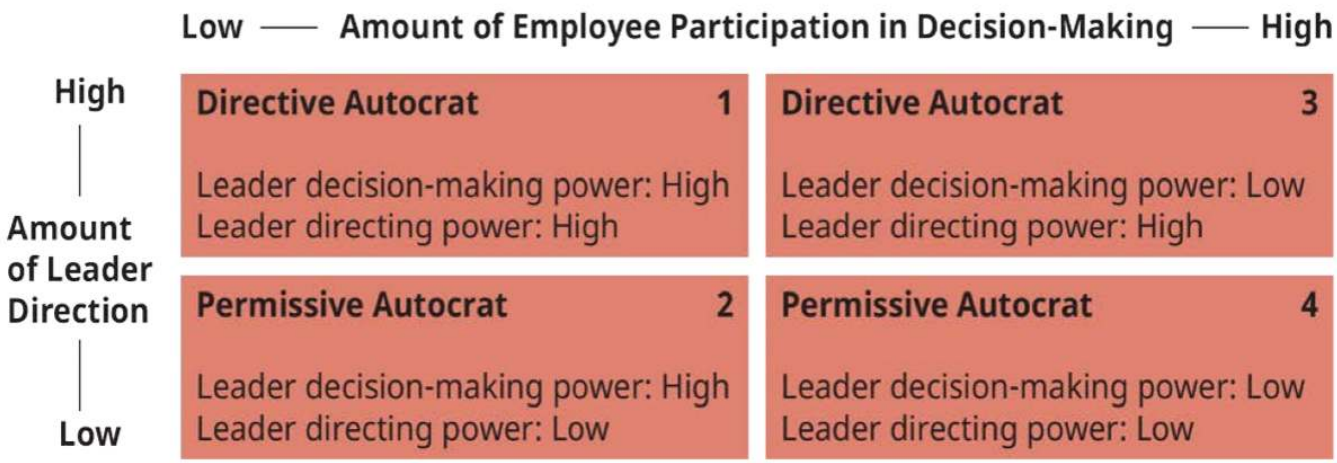


Exhibit 3.7 Leadership Behavior and the Uses of Power Source: Modified from J. P. Muczyk and B. C. Reimann. 1987. The case for directive leadership. Academy of Management Executive, 1:304.

A *directive autocrat* retains power, makes unilateral decisions, and closely supervises workers' activities. This style of leadership is seen as appropriate when circumstances require quick decisions and organizational members are new, inexperienced, or underqualified. A doctor in charge of a hastily constructed shelter for victims of a tornado may use this style to command nonmedical volunteers.

The *permissive autocrat* mixes his or her use of power by retaining decision-making power but permitting organizational members to exercise discretion when executing those decisions. This leader behavior is recommended when decision-making time is limited, tasks are routine, or organizational members have sufficient expertise to determine appropriate role behaviors.

Also sharing power is the *directive democrat*, who encourages participative decision-making but retains the power to direct team members in executing their roles. This style is appropriate when followers have valuable opinions and ideas, but one person needs to coordinate the execution. A surgeon might allow the entire surgical team to participate in developing a plan for a surgical procedure. Once surgery begins, however, the surgeon is completely in charge.

Finally, the *permissive democrat* shares power with group members, soliciting involvement in both decision-making and execution. This style is appropriate when participation has both informational and motivational value, when time permits group decision-making, when group members are capable of improving decision quality, and when followers are capable of exercising self-management in their work performance.

The permissive democratic approach to leadership is characteristic of leadership in high-involvement organizations. Leaders act as facilitators, process consultants, network builders, conflict managers, inspirationalists, coaches, teachers/mentors, and cheerleaders (Pasmore, 1988). Such is the role of Ralph Stayer, founder, owner, and CEO of Johnsonville Foods. He defines himself as his company's philosopher. At Quad/Graphics, president Harry V. Quadracci is a permissive democrat because he encourages all Quad employees to play a major role in decision-making and execution as they manage their teams as independent profit centers.



Exhibit 3.8 Jeff Bezos Jeff Bezos, founder and CEO of Amazon, used to bring an empty chair to meetings to signal and remind participants of the most important people that did not have a seat at the table: the customers. He replaced the empty chair with Amazon employees with the job title Customer Experience Bar Raisers.

? Concept Check

1. What is the role of the leader and follower in the leadership process?
2. How do the theories of Tannenbaum and Schmidt's leadership continuum and McGregor's Theory X and Theory Y attempt to define leadership?

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3.6: The Trait Approach to Leadership

Learning Objectives

1. What are the trait perspectives on leadership?

Ancient Greek, Roman, Egyptian, and Chinese scholars were keenly interested in leaders and leadership. Their writings portray leaders as heroes. Homer, in his poem *The Odyssey*, portrays Odysseus during and after the Trojan War as a great leader who had vision and self-confidence. His son Telemachus, under the tutelage of Mentor, developed his father's courage and leadership skills (Kramer, 1992). Out of such stories emerged the "great man" theory of leadership and a starting point for the contemporary study of leadership.

The **great man theory of leadership** states that some people are born with the necessary attributes to be great leaders. Alexander the Great, Julius Caesar, Joan of Arc, Catherine the Great, Napoleon, and Mahatma Gandhi are cited as naturally great leaders, born with a set of personal qualities that made them effective leaders. Even today, the belief that truly great leaders are born is common. For example, Kenneth Labich, writer for Fortune Magazine, commented that "the best leaders seem to possess a God-given spark" (Labich, 1988).

During the early 1900s, scholars endeavored to understand leaders and leadership. They wanted to know, from an organizational perspective, what characteristics leaders hold in common in the hope that people with these characteristics could be identified, recruited, and placed in key organizational positions. This gave rise to early research efforts and to what is referred to as the *trait approach to leadership*. Prompted by the great man theory of leadership and the emerging interest in understanding what leadership is, researchers focused on the leader—Who is a leader? What are the distinguishing characteristics of the great and effective leaders? The great man theory of leadership holds that some people are born with a set of personal qualities that make truly great leaders. Mahatma Gandhi is often cited as a naturally great leader.

Leader Trait Research

Ralph Stogdill (1948), while on the faculty at The Ohio State University, pioneered our modern (late 20th century) study of leadership. Scholars taking the trait approach attempted to identify physiological (appearance, height, and weight), demographic (age, education, and socioeconomic background), personality (dominance, self-confidence, and aggressiveness), intellective (intelligence, decisiveness, judgment, and knowledge), task-related (achievement drive, initiative, and persistence), and social characteristics (sociability and cooperativeness) with leader emergence and leader effectiveness. After reviewing several hundred studies of leader traits, Stogdill in 1974 described the successful leader this way:

> The [successful] leader is characterized by a strong drive for responsibility and task completion, vigor and persistence in pursuit of goals, venturesomeness and originality in problem solving, drive to exercise initiative in social situations, self-confidence and sense of personal identity, willingness to accept consequences of decision and action, readiness to absorb interpersonal stress, willingness to tolerate frustration and delay, ability to influence other person's behavior, and capacity to structure social interaction systems to the purpose at hand (Stogdill, 1948).

The last three decades of the 20th century witnessed continued exploration of the relationship between traits and leader emergence and effectiveness. Edwin Locke from the University of Maryland and a number of his research associates, in their recent review of the trait research, observed that successful leaders possess a set of core characteristics different from those of other people (Kirkpatrick & Locke, 1991; Locke, 1991). Although these core traits do not solely determine whether a person will be a leader—or a successful leader—they are seen as preconditions that endow people with leadership potential. According to Kirkpatrick and Locke (1991), the core traits identified are:

- ***Drive***—a high level of effort, including a strong desire for achievement, as well as high levels of ambition, energy, tenacity, and initiative
- ***Leadership motivation***—an intense desire to lead others
- ***Honesty and integrity***—a commitment to the truth, where word and deed correspond
- ***Self-confidence***—an assurance in one's self, one's ideas, and one's ability

- ***Cognitive ability***—conceptually skilled, capable of exercising good judgment, having strong analytical abilities, possessing the capacity to think strategically and multidimensionally
- ***Knowledge of the business***—a high degree of understanding of the company, industry, and technical matters
- ***Other traits***—charisma, creativity/originality, and flexibility/adaptiveness

While leaders may be "people with the right stuff," effective leadership requires more than simply possessing the correct set of motives and traits. Knowledge, skills, ability, vision, strategy, and effective vision implementation are all necessary for the person who has the "right stuff" to realize their leadership potential (Locke et al., 1991; Stewart, 1999). According to Locke, people endowed with these traits engage in behaviors associated with leadership. As followers, people are attracted to and inclined to follow individuals who display, for example, honesty and integrity, self-confidence, and the motivation to lead.

Personality psychologists remind us that behavior is a result of an interaction between the person and the situation—that is, Behavior =f[(Person) (Situation)]. To this, psychologist Walter Mischel (1973) adds the important observation that personality tends to be expressed through an individual's behavior in "weak" situations and to be suppressed in "strong" situations. A strong situation has strong behavioral norms and rules, strong incentives, clear expectations, and rewards for a particular behavior. Our characterization of the mechanistic organization with its well-defined hierarchy of authority, jobs, and standard operating procedures exemplifies a strong situation. The organic social system exemplifies a weak situation. From a leadership perspective, a person's traits play a stronger role in their leadership behavior and, ultimately, leader effectiveness when the situation permits the expression of their disposition. Thus, personality traits prominently shape leader behavior in weak situations.

Finally, regarding the validity of the "great person approach to leadership," evidence accumulated to date does not provide a strong base of support for the notion that leaders are born. Yet, the study of twins at the University of Minnesota leaves open the possibility that part of the answer might be found in our genes. Many personality traits and vocational interests (which might be related to one's interest in assuming responsibility for others and the motivation to lead) have been found to be related to our "genetic dispositions" as well as to our life experiences (House & Aditya, 1997; Bouchard, Jr. et al., 1990). Each core trait recently identified by Locke and his associates traces a significant part of its existence to life experiences. Thus, a person is not born with self-confidence. Self-confidence is developed, honesty and integrity are a matter of personal choice, motivation to lead comes from within the individual and is within his control, and knowledge of the business can be acquired. While cognitive ability does in part find its origin in the genes, it still needs to be developed. Finally, drive, as a dispositional trait, may also have a genetic component, but it too can be self- and other-encouraged. It goes without saying that none of these ingredients are acquired overnight.

Other Leader Traits

Sex and gender, disposition, and self-monitoring also play an important role in leader emergence and leader style.

Sex and Gender Role

Much research has gone into understanding the role of sex and gender in leadership (Helgesen, 1990). Two major avenues have been explored: sex and gender roles in relation to leader emergence and whether style differences exist across the sexes.

Evidence supports the observation that men emerge as leaders more frequently than women (Chapman, 1975; Fagenson, 1990). Throughout history, few women have been in positions where they could develop or exercise leadership behaviors. In contemporary society, being perceived as experts appears to play an important role in the emergence of women as leaders. Yet, gender role is more predictive than sex. Individuals with "masculine" (for example, assertive, aggressive, competitive, willing to take a stand) as opposed to "feminine" (cheerful, affectionate, sympathetic, gentle) characteristics are more likely to emerge in leadership roles (Kent & Moss, 1994). In our society, males are frequently socialized to possess masculine characteristics, whereas females are more frequently socialized to possess feminine characteristics.

Recent evidence, however, suggests that individuals who are androgynous (that is, who simultaneously possess both masculine and feminine characteristics) are as likely to emerge in leadership roles as individuals with only masculine characteristics. This suggests that possessing feminine qualities does not distract from the attractiveness of the individual as a leader (Kent & Moss, 1994).

Regarding leadership style, researchers have looked to see if male-female differences exist in task and interpersonal styles and whether or not differences exist in how autocratic or democratic men and women are. The answer is that differences between men and women appear to be marginal when it comes to interpersonal versus task orientation. Women are somewhat more concerned with meeting the group's interpersonal needs, whereas men are somewhat more concerned with meeting the group's task needs. Big

differences emerge in terms of democratic versus autocratic leadership styles. Men tend to be more autocratic or directive, whereas women are more likely to adopt a more democratic/participative leadership style (Early & Johnson, 1990). In fact, it may be because men are more directive that they are seen as key to goal attainment and they are turned to more often as leaders (Dobbins et al., 1990).

Dispositional Trait

Psychologists often use the terms disposition and mood to describe and differentiate people. Individuals characterized by a positive affective state exhibit a mood that is active, strong, excited, enthusiastic, peppy, and elated. A leader with this mood state exudes confidence and optimism and is seen as enjoying work-related activities.

Recent work conducted at the University of California-Berkeley demonstrates that leaders (managers) with positive affectivity (a positive mood state) tend to be more competent interpersonally, contribute more to group activities, and be able to function more effectively in their leadership role (Staw & Barsade, 1993) Their enthusiasm and high energy levels appear to be infectious, transferring from leader to followers. Thus, such leaders promote group cohesiveness and productivity. This mood state is also associated with low levels of group turnover and is positively associated with followers who engage in acts of good group citizenship (George & Bellenhausen, 1990).

Self-Monitoring

Self-monitoring as a personality trait refers to the strength of an individual's ability and willingness to read verbal and nonverbal cues and to alter one's behavior so as to manage the presentation of the self and the images that others form of the individual. "High self-monitors" are particularly astute at reading social cues and regulating their self-presentation to fit a particular situation. "Low self-monitors" are less sensitive to social cues; they may lack either the motivation or the ability to manage how they come across to others.

Some evidence supports the position that high self-monitors emerge more often as leaders. In addition, they appear to exert more influence on group decisions and initiate more structure than low self-monitors. Perhaps high self-monitors emerge as leaders because in group interaction they are the individuals who attempt to organize the group and provide it with the structure needed to move the group toward goal attainment (Dobbins et al., 1990).

? Concept Check

1. What are the trait perspectives on leadership?

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3.7: Behavioral Approaches to Leadership

Learning Objectives

1. What are the behavioral perspectives on leadership?

The nearly four decades of research that focused on identifying the personal traits associated with the emergence of leaders and leader effectiveness resulted in two observations. First, leader traits are important—people who are endowed with the "right stuff" (drive, self-confidence, honesty, and integrity) are more likely to emerge as leaders and to be effective leaders than individuals who do not possess these characteristics. Second, traits are only part of the story. Traits only account for part of why someone becomes a leader and why they are (or are not) effective leaders.

Still under the influence of the great man theory of leadership, researchers continued to focus on the leader in an effort to understand leadership—who emerges and what constitutes effective leadership. Researchers then began to reason that maybe the rest of the story could be understood by looking at what it is that leaders do. Thus, we now turn our attention to leader behaviors and the behavioral approaches to leadership.

It is now common to think of effective leadership in terms of what leaders do. CEOs and management consultants agree that effective leaders display trust in their employees, develop a vision, keep their cool, encourage risk, bring expertise into the work setting, invite dissent, and focus everyone's attention on that which is important (Labich, 1988). William Arruda, in a *Fortune* article, noted that "organizations with strong coaching cultures report their revenue to be above average, compared to their peer group." Sixty-five percent of employees "from strong coaching cultures rated themselves as highly engaged," compared to 13 percent of employees worldwide" (Williams, 2017). Jonathan Anthony calls himself an intrapreneur and corporate dis-organizer because same-old, same-old comms practices are dying in front of our eyes (Anthony, 2017). Apple founder Steve Jobs believed that the best leaders are coaches and team cheerleaders. Management consultant Tom Peters has frequently echoed these views.

During the late 1940s, two major research programs—The Ohio State University and the University of Michigan leadership studies programs—were launched to explore leadership from a behavioral perspective.

The Ohio State University Studies

A group of Ohio State University researchers, under the direction of Ralph Stogdill, began an extensive and systematic series of studies to identify leader behaviors associated with effective group performance. Their results identified two major sets of leader behaviors: consideration and initiating structure.

Consideration is the "relationship-oriented" behavior of a leader. It is instrumental in creating and maintaining good relationships (that is, addressing the group's maintenance needs) with organizational members. Consideration behaviors include being supportive and friendly, representing people's interests, communicating openly with group members, recognizing them, respecting their ideas, and sharing concern for their feelings.

Initiating structure involves "task-oriented" leader behaviors. It is instrumental in the efficient use of resources to attain organizational goals, thereby addressing the group's task needs. Initiating structure behaviors include scheduling work, deciding what to do (and how and when to do it), providing direction to organizational members, planning, coordinating, problem-solving, maintaining performance standards, and encouraging uniform procedures.

After consideration and initiating structure behaviors were first identified, many leaders believed they had to behave one way or another. If they initiated structure, they could not be considerate, and vice versa. However, it did not take long to recognize that leaders can simultaneously display any combination of both behaviors.

The Ohio State studies are important because they identified two critical categories of behavior that distinguish one leader from another. Both consideration and initiating structure behavior can significantly impact work attitudes and behaviors. Unfortunately, the effects of consideration and initiating structure are inconsistent from situation to situation (Fleishman, 1953; Halpin & Winer, 1957). In some of the organizations studied, for example, high levels of initiating structure increased performance. In other organizations, the amount of initiating structure seemed to make little difference. Although most organizational members reported greater satisfaction when leaders acted considerately, consideration behavior appeared to have no clear effect on performance.

Initially, these mixed findings were disappointing to researchers and managers alike. It had been hoped that a profile of the most effective leader behaviors could be identified so that leaders could be trained in the best ways to behave. Research made clear, however, that there is no one best style of leader behavior for all situations.

The University of Michigan Studies

At about the same time the Ohio State studies were underway, researchers at the University of Michigan also began to investigate leader behaviors. As at Ohio State, the Michigan researchers attempted to identify behavioral elements that differentiated effective from ineffective leaders (Katz & Kahn, 1952; Katz et al., 1950).

The two types of leader behavior that stand out in these studies are job-centered and organizational member-centered. *Job-centered behaviors* are devoted to supervisory functions, such as planning, scheduling, coordinating work activities, and providing the resources needed for task performance. *Employee-member-centered* behaviors include consideration and support for organizational members. These dimensions of behavior, of course, correspond closely to the dimensions of initiating structure and consideration identified at Ohio State. The similarity of the findings from two independent groups of researchers added to their credibility. As the Ohio State researchers had done, the Michigan researchers also found that any combination of the two behaviors was possible.

The studies at Michigan are significant because they reinforce the importance of leader behavior. They also provide the basis for later theories identifying specific, effective matches of work situations and leader behaviors. Subsequent research at Michigan and elsewhere has found additional behaviors associated with effective leadership: **support**, **work facilitation**, **goal emphasis**, and **interaction facilitation** (Bowers & Seashore, 1966; Nadler et al., 1975).

These four behaviors are important to the successful functioning of the group in that support and interaction facilitation contribute to the group's maintenance needs, and goal emphasis and work facilitation contribute to the group's task needs. The Michigan researchers also found that these four behaviors do not need to be brought to the group by the leader. In essence, the leader's real job is to set the tone and create the climate to ensure these critical behaviors are present (Bowers & Seashore, 1966).

The Leadership Grid®

Much of the credit for disseminating knowledge about important leader behaviors must go to Robert R. Blake and Jane S. Mouton (1964), who developed a method for classifying leadership styles compatible with many of the ideas from the Ohio State and Michigan studies. In their classification scheme, *concern for results* (production) emphasizes output, cost-effectiveness, and (in for-profit organizations) a concern for profits. *Concern for people* involves promoting working relationships and paying attention to issues of importance to group members. As shown in Exhibit 3.9, the Leadership Grid® demonstrates that any combination of these two leader concerns is possible, and five styles of leadership are highlighted here.

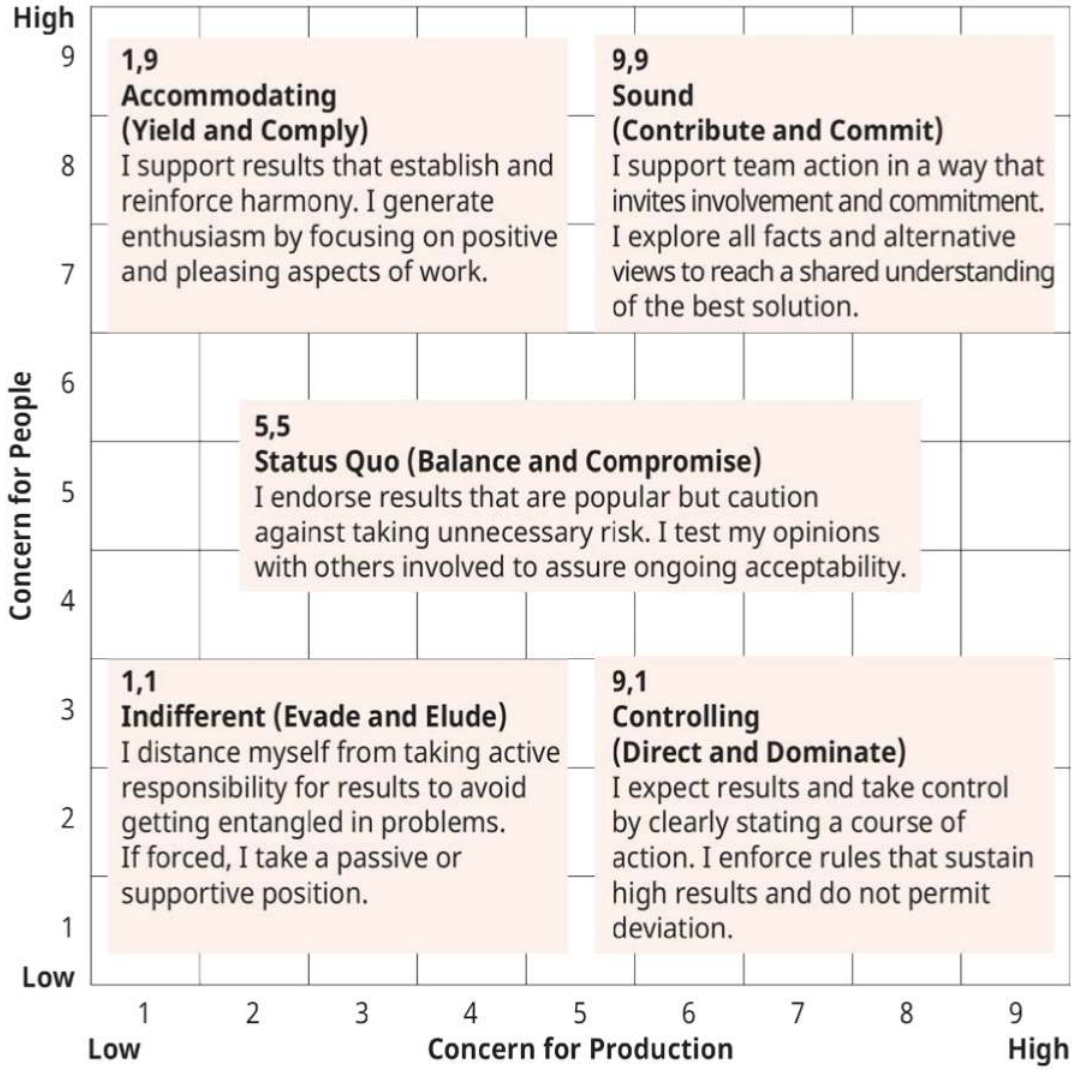


Exhibit 3.9 Blake and Mouton's Managerial Grid® Source: Adapted from R. McKee and B. Carlson. 1999.The Power to Change, p.16.

Blake and Mouton contend that the sound (contribute and commit) leader (a serious concern for results and people, or 9,9) style is universally the most effective (Blake & Mouton, 1981). While the Leadership Grid® is appealing and well structured, research to date suggests that there is no universally effective style of leadership (9,9 or otherwise) (Larson, Hunt, & Osborn, 1976). There are, however, well-identified situations in which a 9,9 style is unlikely to be effective. Organizational members of high-involvement organizations who have mastered their job duties require little production-oriented leader behavior. Likewise, there is little time for people-oriented behavior during an emergency. Finally, evidence suggests that the "high-high" style may be effective when the situation calls for high levels of initiating structure. Under these conditions, the initiation of structure is more acceptable, favorably affecting follower satisfaction and performance, when the leader is also experienced as warm, supportive, and considerate (Tjosvold, 1984; Halpin, 1957; Fleishman & Simmons, 1970).

? Concept Check

1. What are the behavioral approaches to defining leadership?
2. What roles do gender and the popular perceptions of gender roles have on views of leadership traits?

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3.8: Situational (Contingency) Approaches to Leadership

Learning Objectives

1. What are the situational perspectives on leadership?

Ralph Stogdill (1948) stated that "the qualities, characteristics, and skills required in a leader are determined to a large extent by the demands of the situation in which he is to function as a leader." In addition, it had been observed that two major leader behaviors, initiating structure and consideration, didn't always lead to equally positive outcomes. That is, there are times when initiating structure increases performance and follower satisfaction and when the results are just the opposite. Contradictory findings such as this led researchers to ask: "Under what conditions are the results positive in nature?" and "When and why are they negative at other times?" Obviously, situational differences and key contingencies are at work.

Several theories have been advanced to address this issue, including Fiedler's contingency theory of leadership, the path-goal theory of leader effectiveness, Hersey and Blanchard's life cycle theory, cognitive resource theory, the decision tree, and the decision process theory (House & Aditya, 1997). Below, we explore two of the better-known situational theories of leadership, Fred Fiedler's contingency model and Robert J. House's path-goal theory.

Victor Vroom, Phillip Yetton, and Arthur Jago's decision tree model also applies.

Fiedler's Contingency Model

One of the earliest, best-known, and most controversial situation-contingent leadership theories was set forth by Fred E. Fiedler from the University of Washington (Fiedler & Chemers, 1974). This theory is known as the **contingency theory of leadership**. According to Fiedler, organizations attempting to achieve group effectiveness through leadership must assess the leader according to an underlying trait, assess the situation faced by the leader, and construct a proper match between the two.

The Leader's Trait

Leaders are asked about their **least preferred coworker (LPC)**, the person with whom they *least* like to work. The most popular interpretation of the LPC score is that it reflects a leader's underlying disposition toward others—for example, pleasant/unpleasant, cold/warm, friendly/unfriendly, and untrustworthy/trustworthy. You can examine your own LPC score by completing the LPC self-assessment on the following page.

Fiedler states that leaders with high LPC scores are *relationship oriented*—they need to develop and maintain close interpersonal relationships. They tend to evaluate their least preferred coworkers in fairly favorable terms. Task accomplishment is a secondary need for this type of leader and becomes important only after the need for relationships is reasonably well satisfied. In contrast, leaders with low LPC scores tend to evaluate the individuals with whom they least like to work fairly negatively. They are *task-oriented* people, and only after tasks have been accomplished are low-LPC leaders likely to work on establishing good social and interpersonal relations.

The Situational Factor

Some situations favor leaders more than others do. To Fiedler (1976), *situational favorableness* is the degree to which leaders have control and influence and, therefore, feel that they can determine the outcomes of a group interaction. Several years later, Fiedler changed his situational factor from situational favorably to situational control—where situational control essentially refers to the degree to which a leader can influence the group process (House & Aditya, 1997). Three factors work together to determine how favorable a situation is to a leader. In order of importance, they are (1) *leader-member relations*—the degree of the group's acceptance of the leader, their ability to work well together, and members' level of loyalty to the leader; (2) *task structure*—the degree to which the task specifies a detailed, unambiguous goal and how to achieve it; and (3) *position power*—a leader's direct ability to influence group members. The situation is most favorable for a leader when the relationship between the leader and group members is good, the task is highly structured, and the leader's position power is strong (cell 1 in Exhibit 3.10). The least-favorable situation occurs under poor leader–member relations, an unstructured task, and weak position power (cell 8).

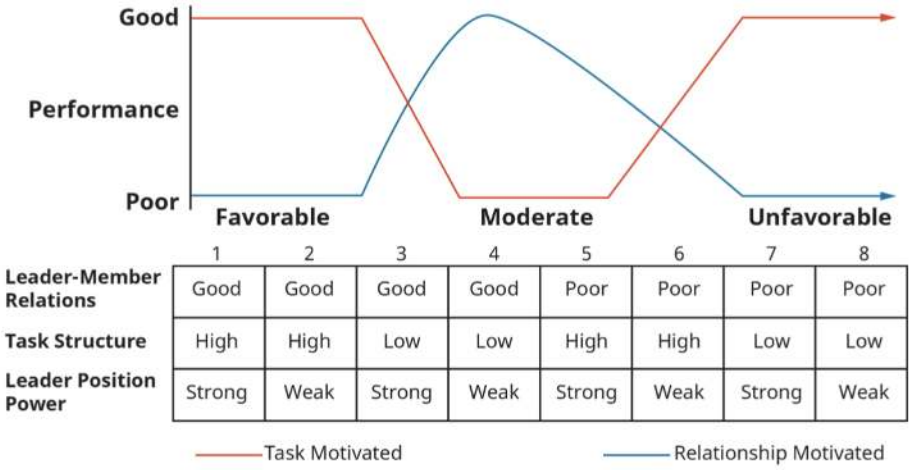


Exhibit 3.10 Fiedler's Contingency Model of Leader-Situation Matches Source: Adapted from F. E. Fiedler and M. M. Chemers. 1974. Leadership and effective management. Glenview, IL: Scott, Foresman.

Leader-Situation Matches

Some combinations of leaders and situations work well; others do not. In search of the best combinations, Fiedler examined a large number of leadership situations. He argued that most leaders have a relatively unchangeable or dominant style, so organizations must design job situations to fit the leader (Fiedler, 1965).

Although the model has not been fully tested and tests have often produced mixed or contradictory findings, Fiedler's research indicates that relationship-oriented (high-LPC) leaders are much more effective under conditions of intermediate favorability than under either highly favorable or highly unfavorable situations (Chemers & Skrzypek, 1972). Fiedler attributes the success of relationship-oriented leaders in situations with intermediate favorability to the leader's nondirective, permissive attitude; a more directive attitude could lead to anxiety in followers, conflict in the group, and a lack of cooperation.

For highly favorable and unfavorable situations, task-oriented leaders (those with low LPC) are very effective. As tasks are accomplished, a task-oriented leader allows the group to perform highly structured tasks without imposing more task-directed behavior. The job gets done without the need for the leader's direction. Under unfavorable conditions, task-oriented behaviors, such as setting goals, detailing work methods, and guiding and controlling work behaviors, move the group toward task accomplishment.

As might be expected, leaders with mid-range LPC scores can be more effective in a wider range of situations than high- or low-LPC leaders (Dunham, 1984). Under conditions of low favorability, for example, a middle-LPC leader can be task-oriented to achieve performance but show consideration for and allow organizational members to proceed on their own under conditions of high situational favorability.

Controversy over the Theory

Although Fiedler's theory often identifies appropriate leader-situation matches and has received broad support, it is not without critics. Some note that it characterizes leaders through reference to their attitudes or personality traits (LPC) while explaining the leader's effectiveness through their behaviors—those with a particular trait will behave in a specific fashion. The theory fails to make the connection between the least-preferred coworker attitude and subsequent behaviors. In addition, some tests of the model have produced mixed or contradictory findings (Chemens & Skrzpek, 1972; Vecchio, 1977). Finally, what is the true meaning of the LPC score—exactly what is being revealed by a person who sees their least-preferred coworker in positive or negative terms? Robert House and Ram Aditya (1997) noted that, despite the criticisms, there has been substantial support for Fiedler's theory.

Path-Goal Theory

Robert J. House and Martin Evans, faculty at the University of Toronto, developed a useful leadership theory. Like Fiedler's, it asserts that the type of leadership needed to enhance organizational effectiveness depends on the situation in which the leader is

placed. Unlike Fiedler, however, House and Evans focus on the leader's observable behavior. Thus, managers can either match the situation to the leader or modify the leader's behavior to fit the situation.

The model of leadership advanced by House and Evans is called the **path-goal theory of leadership** because it suggests that an effective leader provides organizational members with a *path* to a valued *goal*. According to House, the motivational function of the leader consists of increasing personal payoffs to organizational members for work-goal attainment, and making the path to these payoffs easier to travel by clarifying it, reducing roadblocks and pitfalls, and increasing the opportunities for personal satisfaction en route (House, 1971).

Effective leaders, therefore, provide rewards that organizational members value. These rewards may be pay, recognition, promotions, or any other item that incentivizes members to work hard to achieve goals. Effective leaders also give clear instructions so that ambiguities about work are reduced and followers understand how to do their jobs effectively. They provide coaching, guidance, and training so that followers can perform the tasks expected of them. They also remove barriers to task accomplishment, correcting shortages of materials, inoperative machinery, or interfering policies.

An Appropriate Match

According to the path-goal theory, the challenge facing leaders is basically twofold. First, they must analyze situations and identify the most appropriate leadership style. For example, experienced employees who work on a highly structured assembly line don't need a leader to spend much time telling them how to do their jobs—they already know this. However, the leader of an archeological expedition may need to spend a great deal of time telling inexperienced laborers how to excavate and care for the relics they uncover.

Second, leaders must be flexible enough to use different leadership styles as appropriate. To be effective, leaders must engage in a wide variety of behaviors. Without an extensive repertoire of behaviors at their disposal, a leader's effectiveness is limited (Hoojiberg, 1996). All team members will not, for example, have the same need for autonomy. The leadership style that motivates organizational members with strong needs for autonomy (participative leadership) is different from that which motivates and satisfies members with weaker autonomy needs (directive leadership). The degree to which leadership behavior matches situational factors will determine members' motivation, satisfaction, and performance (see Exhibit 3.11) (House & Mitchell, 1974; House & Dessler, 1974).

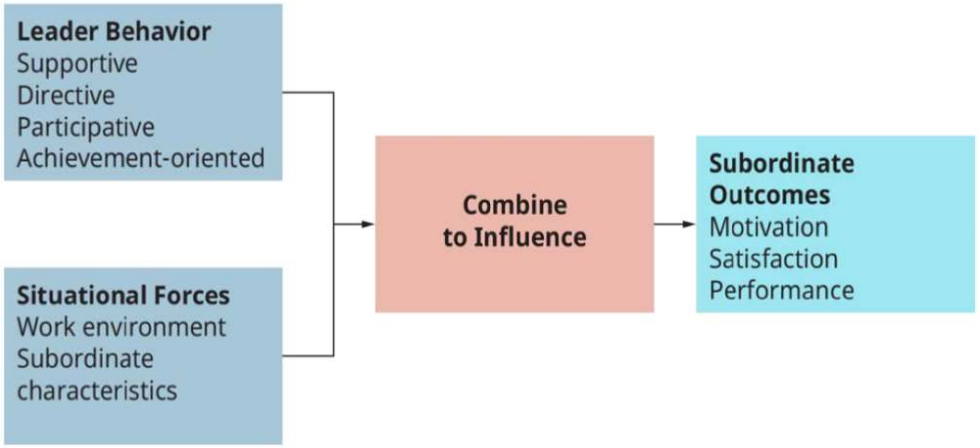


Exhibit 3.11 The Path-Goal Leadership Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Behavior Dimensions

According to path–goal theory, there are four important dimensions of leader behavior, each suited to a particular set of situational demands (House & Mitchell, 1974; House & Dessler, 1974; Keller, 1989).

- ***Supportive leadership***—At times, effective leaders demonstrate concern for the well-being and personal needs of organizational members. Supportive leaders are friendly, approachable, and considerate to individuals in the workplace. Supportive leadership is especially effective when an organizational member performs a boring, stressful, frustrating, tedious, or unpleasant task. If a

task is difficult and a group member has low self-esteem, supportive leadership can reduce some of the person's anxiety, increase his confidence, and increase satisfaction and determination.

- ***Directive leadership***—At times, effective leaders set goals and performance expectations, let organizational members know what is expected, provide guidance, establish rules and procedures to guide work, and schedule and coordinate members' activities. Directive leadership is called for when role ambiguity is high. Removing uncertainty and providing needed guidance can increase members' effort, job satisfaction, and job performance.
- ***Participative leadership***—At times, effective leaders consult with group members about job-related activities and consider their opinions and suggestions when making decisions. Participative leadership is effective when tasks are unstructured. Participative leadership is used to great effect when leaders need help in identifying work procedures and where followers have the expertise to provide this help.
- ***Achievement-oriented leadership***—At times, effective leaders set challenging goals, seek performance improvement, emphasize excellence, and demonstrate confidence in organizational members' ability to attain high standards. Achievement-oriented leaders thus capitalize on members' needs for achievement and use goal-setting theory to great advantage.

Cross-Cultural Context

Gabriel Bristol, the CEO of Intelifluence Live, a full-service customer contact center offering affordable inbound customer service, outbound sales, lead generation, and consulting services for small to mid-sized businesses, notes that "diversity breeds innovation, which helps businesses achieve goals and tackle new challenges" (Bristol, 2016). *Multiculturalism* is a new reality as today's society and workforce become increasingly diverse. This naturally leads to the question, "Is there a need for a new and different style of leadership?"

Most contemporary scholarship directed toward understanding leaders and the leadership process has been conducted in North America and Western Europe. Westerners have "developed a highly romanticized, heroic view of leadership" (Meindl et al., 1985). Leaders occupy center stage in organizational life. We use leaders in our attempts to make sense of the performance of our groups, clubs, organizations, and nations. We see them as key to organizational success and profitability, credit them with organizational competitiveness, and blame them for organizational failures. At the national level, recall that President Reagan brought down Communism and the Berlin Wall, President Bush won the Gulf War, and President Clinton brought unprecedented economic prosperity to the United States during the 1990s.

This larger-than-life role ascribed to leaders and the Western romance with successful leaders raise the question, "How representative is our understanding of leaders and leadership across cultures?" That is, do the results that we have examined in this chapter generalize to other cultures?

Geert Hofstede points out that significant value differences (individualism-collectivism, power distance, uncertainty avoidance, masculinity-femininity, and time orientation) cut across societies. Thus, leaders of culturally diverse groups will encounter belief and value differences among their followers, as well as in their own leader–member exchanges.

There appears to be a consensus that a universal approach to leadership and leader effectiveness does not exist. Cultural differences work to enhance and diminish the impact of leadership styles on group effectiveness. For example, when leaders empower their followers, the effect on job satisfaction in India has been found to be negative, whereas in the United States, Poland, and Mexico, the effect is positive (Robert et al., 2000). The existing evidence suggests similarities as well as differences in such areas as the effects of leadership styles, the acceptability of influence attempts, and the closeness and formality of relationships. The distinction between task and relationship-oriented leader behavior, however, does appear to be meaningful across cultures (Dorfman & Roonen, 1991). Leaders whose behaviors reflect support, kindness, and concern for their followers are valued and effective in Western and Asian cultures. Yet it is also clear that democratic, participative, directive, and contingent-based rewards and punishment do not produce the same results across cultures. The United States differs greatly from Brazil, Korea, New Zealand, and Nigeria. The effective practice of leadership necessitates a careful look at, and understanding of, the individual differences brought to the leader-follower relationship by cross-cultural contexts (Dorfman et al., 1997).

Concept Check

1. Identify and describe the variables presented in Fiedler's theory of leadership.
2. What are the leadership behaviors in the path-goal theory of leadership?
3. What role does culture have in how leadership is viewed?
4. What are the differences between the trait, behavioral, and situational approaches to defining leadership?

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3.9: Substitutes for and Neutralizers of Leadership

Learning Objectives

1. What does the concept “substitute for leadership” mean?

Several factors have been discovered that can substitute for or neutralize the effects of leader behavior (see Table 3.1) (Podsakoff et al., 1993). *Substitutes* for leadership behavior can clarify role expectations, motivate organizational members, or satisfy members (making it unnecessary for the leader to attempt to do so). In some cases, these substitutes supplement the behavior of a leader. Sometimes, a group member’s characteristics make leadership less necessary, such as when a master craftsperson or highly skilled worker performs up to his or her own high standards without needing outside prompting. Sometimes, the task’s characteristics take over, as when the work itself—solving an interesting problem or working on a familiar job—is intrinsically satisfying. Sometimes, the organization's characteristics make leadership less necessary, as when work rules are so clear and specific that workers know exactly what they must do without help from the leader (see An Inside Look at Flat Management Structure and the Orchestra With No Leader).

Table 3.1

Substitutes for and Neutralizers of Leader Behavior

Supportive or Neutralizer	Substitute Leadership	Instrumental Leadership
A. Subordinate Characteristics:		
1. Experience, ability, training		Substitute
2. "Professional" orientation	Substitute	Substitute
3. Indifference toward rewards offered by the organization	Neutralizer	Neutralizer
B. Task Characteristics:		
1. Structured, routine, unambiguous task		Substitute
2. Feedback provided by task		Substitute
3. Intrinsically satisfying task	Substitute	
C. Organization Characteristics:		
1. Cohesive work group	Substitute	Substitute
2. Low position power (leader lacks control over organizational rewards)	Neutralizer	Neutralizer
3. Formalization (explicit plans, goals, areas of responsibility)		Substitute
4. Inflexibility (rigid, unyielding rules and procedures)		Neutralizer
5. Leader located apart from subordinates with only limited communication possible	Neutralizer	Neutralizer

Source: Adapted from *Leadership in Organizations* by G. A. Yukl.

Table 3.1

Neutralizers of leadership, on the other hand, are not helpful; they prevent leaders from acting as they wish. A computer-paced assembly line, for example, precludes a leader from using initiating structure behavior to pace the line. A union contract specifying that workers be paid according to seniority precludes a leader from dispensing merit-based pay. Sometimes, of course, neutralizers can be beneficial. Union contracts, for example, clarify disciplinary proceedings and identify the responsibilities of both management and labor. Leaders must be aware of the presence of neutralizers and their effects to eliminate troublesome neutralizers or take advantage of any potential benefits that accompany them (such as the clarity of responsibilities provided by a union contract). If a poor communication system is neutralizing a leader's effectiveness, for example, the leader might try to remove the neutralizer by developing (or convincing the organization to develop) a more effective system.

Followers differ considerably in their *focus of attention* while at work, thereby affecting the effectiveness of the act of leadership. Focus of attention is an employee's cognitive orientation while at work. It reflects what and how strongly an individual thinks about various objects, events, or phenomena while physically present at work. Focus of attention reflects an individual difference in that not all individuals have the same cognitive orientation while at work—some think a great deal about their job, their coworkers, their leader, or off-the-job factors, while others daydream (Gardner, Dunham, Cummings, & Pierce, 1989). An employee's focus of attention has both "trait" and "state" qualities. For example, there is a significant amount of minute-by-minute variation in an employee's focus of attention (the "state" component), and there is reasonable consistency in the categories of events that employees think about while they are at work (the "trait" component).

Research suggests that the more followers focus on off-job factors, the less they will react to the leader's behaviors. Thus, a strong focus on one's life "away from work" (for example, time with family and friends) tends to neutralize the motivational, attitudinal, and/or behavioral effects of any particular leader behavior. It has also been observed, however, that a strong focus on the leader, either positive or negative, enhances the impact that the leader's behaviors have on followers (Gardner et al., 1987).

✔ Managerial Leadership

You Are Now the Leader

Leading and managing are two very different things. Being a manager means more than gaining authority or charge over former colleagues. With the title comes the power to affect company outcomes, but it also comes with something more: the power to shape subordinates' careers and personal growth.

According to Steve Keating, a senior manager at the Toro Company, it is important not to assume that being made a manager automatically makes you a leader. Rather, being a manager means having the *opportunity* to lead. Enterprises need managers to guide processes, but the employees—the people—need a leader. Keating believes leaders need a mindset that emphasizes people, and the leader's job is to help the people in the organization succeed. According to Keating, "If you don't care for people, you can't lead them" (Hakim, 2017).

Ground rules are essential for someone who has been promoted over his peers. "Promotion doesn't mean the end of friendship, but it does change it," according to Keating. If a peer has been promoted, rather than grouse and give in to envy, it is important to step back and look at the new manager; take a hard look at why the peer was promoted and what skill or characteristic made you a less appealing fit for the position (Hakim, 2017).

Carol Walker, president of Prepared to Lead, a management consulting firm, advises new managers to develop a job philosophy. She urges new managers to develop a core philosophy that guides the day-to-day job of leading. She urges managers to build up the people they are leading and work as a "servant leader." The manager's perspective should be on employee growth and success. Leaders must bear in mind that employees don't work for the manager; they work for the organization—and for themselves. Managers coordinate this relationship; they are not the center of it. Work should not be assigned haphazardly but with the employee's skills and growth in mind. "An employee who understands why she has been asked to do something is far more likely to assume true ownership for the assignment," Walker says (Yakowicz, 2015). A leader's agenda should be on employee success, not personal glory. Employees are more receptive when they recognize that their leader is working not for their own success but for the employee's success.

A survey from HighGround revealed one important item that most new managers and even many seasoned managers overlook: asking for feedback. Everyone has room for growth, even managers. Traditional management dictates a top-down style in which managers review subordinates. But many companies have found it beneficial to turn things around and ask employees,

"How can I be a better manager?" Of course, this upward review only works if employees believe their opinion will be heard. Managers must carefully cultivate a rapport where employees don't fear reprisals for negative feedback. Listening to criticism from those you are leading builds trust and helps ensure that, as a manager, you are providing the sort of leadership that employees need to be successful (Kauflin, 2017). Showing respect and caring for employees by asking this simple question is *inspiring*—an important aspect of leadership itself. Whether asking for feedback or focusing on an employee's fit with a particular job description, a leader helps guide employees through the day-to-day, builds a positive culture, and helps employees improve their skills.

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Questions

1. What do you think are the most important qualities of a leader? In a manager? Are your two lists mutually exclusive? Why?
2. How do you think a leader can use feedback to model the growth process for employees?

? Concept Check

1. Identify and describe substitutes of leadership.

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3.10: Transformational, Visionary, and Charismatic Leadership

Learning Objectives

1. What are the characteristics of transactional, transformational, and charismatic leadership?

Many organizations struggling with the need to manage chaos, to undergo a culture change, to empower organizational members, and to restructure have looked for answers in "hiring the right leader." Many have come to believe that the transformational, visionary, and charismatic leader represents the style of leadership needed to move organizations through chaos.

The Transformational and Visionary Leader

Leaders who subscribe to the notion that "if it ain't broke, don't fix it" are often described as *transactional leaders*. They are extremely task oriented and instrumental in their approach, frequently looking for incentives to induce their followers into a desired course of action (Yukl, 1981). These reciprocal exchanges occur in a mutually interdependent relationship between the leader and the follower, frequently resulting in interpersonal bonding (Kellerman, 1984). The transactional leader moves a group toward task accomplishment by initiating structure and offering an incentive in exchange for desired behaviors. On the other hand, the **transformational leader** moves and changes (fixes) things "in a big way"! Unlike transactional leaders, they don't cause change by offering inducements. Instead, they inspire others to action through their personal values, vision, passion, and belief in and commitment to the mission (Burns, 1978). Through charisma (idealized influence), individualized consideration (a focus on the development of the follower), intellectual stimulation (questioning assumptions and challenging the status quo), and/or inspirational motivation (articulating an appealing vision), transformational leaders move others to follow.

The transformational leader is also referred to as a visionary leader. **Visionary leaders** influence others through an emotional and/or intellectual attraction to the leader's dreams of what "can be." Vision links a present and future state, energizes and generates commitment, provides meaning for action, and serves as a standard against which to assess performance (Daft, 2018). Evidence indicates that vision is positively related to follower attitudes and performance (Baum, Locke, & Kirkpatrick, 1998). As Warren Bennis (1989) pointed out, a vision is effective only to the extent that the leader can communicate it so that others come to internalize it as their own.

As people, transformational leaders are engaging. They are characterized by extroversion, agreeableness, and openness to experience (Judge & Bono, 2000). They energize others. They increase followers' awareness of the importance of the designated outcome (Pillai et al., 1999). They motivate individuals to transcend their self-interest for the team's benefit and inspire organizational members to self-manage (become self-leaders) (Manz & Sims, Jr., 1987). Transformational leaders move people to focus on higher-order needs (self-esteem and self-actualization). When organizations face a turbulent environment, intense competition, products that may die early, and the need to move fast, managers cannot rely solely on organizational structure to guide organizational activity. In these situations, transformational leadership can motivate followers to be fully engaged and inspired, to internalize the goals and values of the organization, and to move forward with dogged determination!

Transformational leadership is positively related to follower satisfaction, performance, and acts of citizenship. These effects result from transformational leader behaviors eliciting trust and perceptions of procedural justice, which favorably impact follower satisfaction and performance (Pillai et al., 1999). As Pillai and colleagues (1999) noted, "when followers perceive that they can influence the outcomes of decisions that are important to them and that they are participants in an equitable relationship with their leader, their perceptions of procedural justice [and trust] are likely to be enhanced." Trust and experiences of organizational justice promote leader effectiveness, follower satisfaction, motivation, performance, and citizenship behaviors.

Charismatic Leadership

Ronald Reagan, Jesse Jackson, and Queen Elizabeth I have something in common with Martin Luther King Jr., Indira Gandhi, and Winston Churchill. The effectiveness of these leaders originates in part in their charisma, a special magnetic charm and appeal that arouses loyalty and enthusiasm. Each exerted considerable personal influence to bring about major events.

It is difficult to differentiate the charismatic from the transformational leader. True transformational leaders may achieve their results through the magnetism of their personality. In this case, the two types of leaders are essentially one and the same, yet it is

important to note that not all transformational leaders have a personal “aura.”

Sociologist Max Weber evidenced an interest in charismatic leadership in the 1920s, calling **charismatic leaders** people who possess legitimate power that arises from “exceptional sanctity, heroism, or exemplary character" (Eisenstadt, 1968). Charismatic leaders “single-handedly” effect changes even in very large organizations. Their personality is a powerful force, and the relationship that they forge with their followers is extremely strong.



Exhibit 3.12 Travis Kalanick Travis Kalanick was a praised CEO of Uber who managed to increase the company's value to over $60 billion. He was forced to resign after taking a leave of absence and having several key executives resign due to allegations of creating a hostile and unethical workplace.

The charismatic leadership phenomenon involves a complex interplay between the leader's attributes and followers’ needs, values, beliefs, and perceptions (Conger & Kanungo, 1987). At its extreme, leader-follower relationships are characterized by followers’ unquestioning acceptance; trust in the leader’s beliefs; affection; willing obedience to, emulation of, and identification with the leader; emotional involvement with his mission; and feelings of self-efficacy directed toward the leader’s mission (House & Baetz, 1979). This can work to improve individuals' welfare, such as when Lee Iacocca saved thousands of jobs through his dramatic turnaround of a failing corporate giant, the Chrysler Corporation. It also can be disastrous, as when David Koresh led dozens and dozens of men, women, and children to their fiery deaths in Waco, Texas. Individuals working for charismatic leaders often have higher task performance, greater task satisfaction, and lower levels of role conflict than those working for leaders with considerate or structuring behaviors (Howell & Frost, 1989). What are the characteristics of these people who can exert such a strong influence over their followers? Charismatic leaders have a strong need for power and the tendency to rely heavily on referent power as their primary power base (House, 1977). Charismatic leaders also are extremely self-confident and convinced of the rightness of their own beliefs and ideals. This self-confidence and strength of conviction make people trust the charismatic leader’s judgment, unconditionally following the leader’s mission and directives for action (Willner, 1984). The result is a strong bond between leader and followers, built primarily around the leader’s personality.

Although there have been many effective charismatic leaders, those who succeed the most have coupled their charismatic capabilities with behaviors consistent with the same leadership principles followed by other effective leaders. Those who do not add these other dimensions still attract followers but do not meet organizational goals as effectively as possible. They are (at least for a time) the pied pipers of the business world, with lots of followers but no constructive direction.

Ethics in Practice

Uber’s Need for an Ethical Leader

Almost since its initial founding in 2009 as a luxury car service for the San Francisco area, controversy has followed Uber. Many complaints are against the tactics employed by the company’s founder and former CEO, Travis Kalanick, but the effects are found throughout the business and its operations.

In 2009, UberBlack was a “black car” service, a high-end driving service that cost more than a taxi but less than hiring a private driver for the night. It wasn’t until 2012 that the company launched UberX, the taxi-esque service most people think of today when they say “Uber.” The UberX service contracted with private drivers who provided rides in their personal vehicles. A customer would use Uber's smartphone app to request the ride, and a private driver would show up. Originally launched in San Francisco, the service spread quickly, and by 2017, Uber was in 633 cities. The service was hailed by many as innovative and the free market's answer to high-priced and sometimes unreliable taxi services. However, Uber has not been without its critics, both inside and outside the company.

In 2013, as the UberX service spread, some UberBlack drivers protested at the company’s headquarters, complaining about poor company benefits and pay. They also claimed that competition from the newly launched UberX service was cutting into their sales and undermining job security. Kalanick rebuffed the protests, basically calling the complaints sour grapes: most of the protestors had been laid off earlier for poor service (Lawler, 2013). Controversy also arose over the use of contract drivers rather than full-time employees. Contractors complained about a lack of benefits and low wages. Competitors, especially taxi services, complained that they were being unfairly undercut because Uber didn’t have to abide by the same screening process and costs as traditional yellow taxi companies. Some municipalities agreed, arguing further that Uber’s lack of or insufficient screening of drivers put passengers at risk.

Uber quickly generated a reputation as a bully and Kalanick as an unethical leader (Ann, 2016). The company has been accused of covering up cases of sexual assault, and Kalanick himself has been quoted as calling the service “Boob-er,” a reference to using the service to pick up women (Ann, 2016). Uber has been criticized for its recruiting practices; in particular, it has been accused of bribing drivers working for competitors to switch over and drive for Uber (Ann, 2016). The company was also caught making false driver requests for competing companies and then canceling the order. The effect was to waste the other driver’s time and make it more difficult for customers to secure rides on the competing service (D’Orazio, 2014). Susan J. Fowler, former site reliability engineer at Uber, went public with cases of outright sexual harassment within Uber (Fowler, 2017). Former employees described Uber’s corporate culture as an "a**hole culture" and a “‘Hobbesian jungle’ where you can never get ahead unless someone else dies” (Wong, 2017). One employee described a leadership style that encouraged a company to develop incomplete solutions to beat the competitor to market. Fowler went so far as to compare the experience to Game of Thrones, and other former employees even considered "making it" at Uber a black mark on a resume (Wong, 2017).

In terms of social acrimony and PR disasters, arguably caused or even encouraged by leadership, Uber’s rise to notoriety has arguably been more bad than good. In June 2017, Kalanick made one too many headlines and agreed to step down as the company’s CEO.

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Questions

1. In the summer of 2017, Transport of London (TfL) began proceedings to revoke Uber’s permit to operate in London. How do you think Uber’s poor corporate reputation may have factored into TfL's thinking?
2. What steps do you think Uber’s new CEO, Dara Khosrowshahi, needs to take to repair Uber’s reputation?

3. Despite Uber's apparent success in launching in multiple markets, it continues to post quarterly losses in the millions, and shareholders effectively subsidize 59% of every ride (https://www.reuters.com/article/us-u...-idUSKCN1B3103). How is this an outworking of Uber's overall corporate culture?

? Concept Check

1. What are the defining characteristics of transformational and charismatic leaders?

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3.11: Leadership Needs in the 21st Century

Learning Objectives

1. How do different approaches and styles of leadership impact what is needed now?

Frequent headlines in popular business magazines like *Fortune* and *Business Week* call our attention to a major movement occurring in the business world. Organizations are being reengineered and restructured, and network, virtual, and modular corporations are emerging. People talk about the transnational organization, the boundaryless company, the post-hierarchical organization. By the end of the decade, the organizations we will be living in, working with, and competing against will likely be vastly different from what we know today.

The transition will not be easy; uncertainty tends to breed resistance. We are driven by linear and rational thinking, leading us to believe that “we can get there from here” by making incremental changes in who we are and what we are currently doing. Existing paradigms frame our perceptions and guide our thinking. Throwing away paradigms that have served us well in the past does not come easily.

A look back tells most observers that the past decade has been characterized by rapid change, intense competition, an explosion of new technologies, chaos, turbulence, and high levels of uncertainty. A quick scan of today’s business landscape suggests that this trend is not going away anytime soon. According to Professor Jay A. Conger from Canada’s McGill University, “In times of great transition, leadership becomes critically important. Leaders, in essence, offer us a pathway of confidence and direction as we move through seeming chaos. The magnitude of today’s changes will demand not only *more* leadership, but *newer forms* of leadership" (Conger, 1993).

According to Conger, two major forces are defining for us the genius of the next generation of leaders. The first force is the organization’s external environment. Global competitiveness is creating some unique leadership demands. The second force is the growing diversity in organizations’ internal environments. Diversity will significantly change the relationship between organizational members, work, and the organization in challenging, difficult, and yet very positive ways.

What will the leaders of tomorrow be like? Professor Conger suggests that the effective leaders of the 21st century will have to be many things (Conger, 1993). They will have to be *strategic opportunists*; only organizational visionaries will find strategic opportunities before competitors. They will have to be *globally aware*; with 80% of today’s organizations facing significant foreign competition, knowledge of foreign markets, global economics, and geopolitics is crucial. They will have to be *capable of managing a highly decentralized organization*; movement toward the high-involvement organization will accelerate as the environmental demands for organizational speed, flexibility, learning, and leanness increase. They will have to be *sensitive to diversity*; during the first few years of the 21st century, fewer than 10% of those entering the workforce in North America will be white, Anglo-Saxon males, and the incoming women, minorities, and immigrants will bring with them a very different set of needs and concerns. They will have to be *interpersonally competent*; a highly diverse workforce will necessitate a leader who is extremely aware of and sensitive to multicultural expectations and needs. They will have to be *builders of an organizational community*; work and organizations will serve as a major source of need fulfillment, and in the process, leaders will be called on to help build this community in such a way that organizational members develop a sense of ownership for the organization and its mission.

Finally, it is important to note that leadership theory construction and empirical inquiry are an ongoing endeavor. While the study of traits, behavior, and contingency models of leadership provide us with a great deal of insight into leadership, the mosaic is far from complete. During the past 15 years, several new theories of leadership have emerged; among them are leader-member exchange theory, implicit leadership theory, neo-charismatic theory, value-based theory of leadership, and visionary leadership, each of which over time will add to our bank of knowledge about leaders and the leadership process (House & Aditya, 1997).

Leaders of the 21st-century organization have a monumental challenge awaiting them and a wealth of self-enriching and fulfilling opportunities. The challenge and rewards awaiting effective leaders are awesome!

Concept Check

1. What is the role of leadership in the 21st century?

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3.12: Summary

Key Terms

Charisma

A special personal magnetic charm or appeal that arouses loyalty and enthusiasm in a leader-follower relationship.

Charismatic leader

A person who possesses legitimate power that arises from "exceptional sanctity, heroism, or exemplary character."

Consideration

A "relationship-oriented" leader behavior that is supportive, friendly, and focused on personal needs and interpersonal relationships.

Contingency theory of leadership

A theory advanced by Dr. Fred E. Fiedler that suggests that different leadership styles are effective as a function of the favorableness of the leadership situation least preferred.

Designated leader

The person placed in the leadership position by forces outside the group.

Emergent leader

The person who becomes a group's leader by virtue of processes and dynamics internal to the group.

Formal leader

That individual who is recognized by those outside the group as the official leader of the group.

Great man theory of leadership

The belief that some people are born to be leaders and others are not.

Informal leader

That individual whom members of the group acknowledge as their leader.

Initiating structure

A "task-oriented" leader behavior that is focused on goal attainment, organizing and scheduling work, solving problems, and maintaining work processes.

Leadership

A social (interpersonal) influence relationship between two or more persons who depend on each other to attain certain mutual goals in a group situation.

Least-preferred coworker (LPC)

The person with whom the leader least likes to work.

Path–goal theory of leadership

A theory that posits that leadership is path- and goal-oriented, suggesting that different leadership styles are effective as a function of the task confronting the group.

Transformational leader

A leader who moves and changes things "in a big way" by inspiring others to perform the extraordinary.

Visionary leader

A leader who influences others through an emotional and/or intellectual attraction to the leader's dreams of what "can be."

Summary of Learning Outcomes

3.2 The Nature of Leadership

1. What is the nature of leadership and the leadership process?

Leadership is a primary vehicle for fulfilling the directing function of management. Because of its importance, theorists, researchers, and practitioners have devoted tremendous attention and energy to unlocking the secrets of effective leadership. They have kept at this search for perhaps a greater period than for any other single issue related to management.

3.3 The Leadership Process

2. What are the processes associated with people coming to leadership positions?

Organizations typically have both formal and informal leaders. Their leadership is effective for virtually identical reasons. Leadership and management are not the same. Although effective leadership is a necessary part of effective management, the overall management role is much larger than leadership alone. Managers plan, organize, direct, and control. As leaders, they are engaged primarily in the directing function.

3.4 Types of Leaders and Leader Emergence

3. How do leaders influence and move their followers to action?

There are many diverse perspectives on leadership. Some managers treat leadership primarily as an exercise of power. Others believe that a particular belief and attitude structure makes for effective leaders. Still others believe it is possible to identify a collection of leader traits that produces a leader who should be universally effective in any leadership situation. Even today, many believe that a profile of behaviors can universally guarantee successful leadership. Unfortunately, such simple solutions fall short of the reality.

3.5 The Trait Approach to Leadership

4. What are the trait perspectives on leadership?

3.6 Behavioral Approaches to Leadership

5. What are the behavioral perspectives on leadership?

Effective leaders are endowed with the “right stuff,” yet this “stuff” is only a precondition to effective leadership. Leaders need to connect with their followers and bring the right configuration of knowledge, skills, ability, vision, and strategy to the situational demands confronting the group.

3.7 Situational (Contingency) Approaches to Leadership

6. What are the situational perspectives on leadership?

We now know that there is no one best way to be an effective leader in all circumstances. Leaders need to recognize that how they choose to lead will affect the nature of their followers’ compliance with their influence tactics and ultimately impact motivation, satisfaction, performance, and group effectiveness. In addition, the nature of the situation—contextual demands and characteristics of the follower—dictates the type of leadership that is likely to be effective. Fiedler focuses on leader traits and argues that the favorableness of the leadership situation dictates the kind of leadership approach needed. He recommends selecting leaders to match the situation or changing the situation to match the leader. Path-goal theory focuses on leader behavior that can be adapted to the demands of a particular work environment and organizational members’ characteristics. Path–goal theorists believe both that leaders can be matched with the situation and that the situation can be changed to match leaders. Together, these theories make clear that leadership is effective when the characteristics and behavior of the leader match the demands of the situation.

3.8 Substitutes for and Neutralizers of Leadership

7. What does the concept of “substitute for leadership” mean?

Characteristics of followers, tasks, and organizations can substitute for or neutralize many leader behaviors. Leaders must remain aware of these factors, no matter which perspective on leadership they adopt. Such awareness allows managers to use substitutes for and neutralizers of leadership to their benefit rather than be stymied by their presence.

3.9 Transformational, Visionary, and Charismatic Leadership

8. What are the characteristics of transactional, transformational, and charismatic leadership?

In recent years, there has been a renewed interest in key leader traits and behaviors. As organizations face increasing chaos in their external environments, searching for "the right leader" to bring about major organizational transformations has intensified. This search again focuses on a set of "key" motives, knowledge, skills, and personality attributes. Emerging from this search has been the identification of the charismatic and transformational leader.

3.10 Leadership Needs in the 21st Century

9. How do different approaches and styles of leadership impact what is needed now?

Leadership in the high-involvement organization differs dramatically from that in the traditional and control-oriented organization. Leaders who are external to the team have a primary role in empowering group members and the teams themselves to self-lead and self-manage. Leaders internal to the team are peers; they work alongside and simultaneously facilitate planning, organizing, directing, controlling, and executing the team's work.

Although we know a great deal about the determinants of effective leadership, we have much to learn. Each theory presented in this chapter is put into practice by managers every day. None provides the complete answer to what makes leaders effective, but each has something important to offer.

Finally, our understanding of leadership has many shortcomings and limitations. The existing literature is largely based on observations from a Western industrialized context. The extent to which our leadership theories are bound by our culture, limiting generalization to other cultures, is largely unknown. Cross-cultural leadership research will no doubt intensify as the global economy becomes an ever more dominant force.

? Chapter Review Questions

1. Define leadership and distinguish between leadership and management.
2. Discuss the processes associated with people coming to positions of leadership.
3. Discuss the different forms of power available to leaders and the effects associated with each.
4. It has been observed that effective leaders have the "right stuff." What traits are commonly associated with leader emergence and effective leaders?
5. The Ohio State University and University of Michigan leadership studies identified central leader behaviors. What are these behaviors, and how are they different from one another?
6. Blake and Mouton's work with the Leadership Grid® identified several leadership types. What are they, and how does this leadership model look from the perspective of situation theories of leadership?
7. Identify and describe the three situational variables presented in Fiedler's contingency theory of leadership.
8. What are the four leadership behaviors in the path-goal theory of leadership?
9. Discuss the differences between the internal and external leadership roles surrounding self-managed work teams.
10. What are substitutes for leadership? What are neutralizers? Give an example of each.
11. What are the distinguishing features of the transformational and the charismatic leader?

Management Skills Application Exercises

1. Identify a charismatic leader and a leader with little charisma. What traits and skills allow them to succeed in their roles? How can you incorporate the traits that enable them to succeed in their roles into the skills you will need in a leadership position?
2. You have just taken a leadership position where 40 percent of the workforce telecommutes. You want to encourage teamwork and ensure that telecommuting is not hurting teamwork. What is your plan to discover how things are working and how to communicate your desire to have effective teamwork?
3. You are at a meeting, and during the meeting, someone on the team addresses their manager and points out a crucial mistake that could doom the project. The person says that their manager should have caught it and, because of that, should resign. As a leader of the group, how would you deal with the subordinate and the manager and communicate with the entire team?

Managerial Decision Exercises

1. You are the newly appointed commissioner of a major sports league in a public game three of a best-of-seven-game playoff. After an emotional opening ceremony that recognizes a tragic event in the community that is widely praised, you settle in to enjoy the game. Early in the game, a player on one team is seen celebrating a scoring play by acting out a racially insensitive behavior after the play. How would you act in a leadership position? Read the ESPN article and comment on how this commissioner acted in this instance.
2. One of the challenges for a new manager in a leadership position is managing stress. Reflect on a time in your life when you have taken a leadership role in a summer job, as a member of a team, or in a study group for this or another course. Develop a stress management plan that includes how you can recognize stress, how you will notice the stress, how you will manage changes to address stress, and how you will seek outside counsel and help, including a mentor to help you manage stress.
3. Few people would want to hire a skilled manager with no leadership skills, and you would not want to hire an inspirational leader who can't manage planning, delegating, or keeping things organized. Draw two "T accounts" with positive attributes on the left and negative attributes on the right for managerial skills and leadership skills that you would look for as a hiring manager for a crucial managerial and leadership position in your organization.

Managerial Skills	
+	−

Leadership Skills	
+	−

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Critical Thinking Case

The Leadership Challenge at United

Anyone who has traveled even a little has at least one airline horror story: being stranded at an airport, obnoxious passengers, missed connections, flight delays, or just bad in-flight food. Even the most seasoned travelers would be hard-pressed to match Dr. David Dao's experience of being forcibly removed, kicking and screaming, from a United Airlines flight. Most airline horror stories don't end in a concussion, missing teeth, and a broken nose.

United Airlines CEO Oscar Munoz's strangely detached response only made things worse. The incident was caught on video, and that video went viral almost immediately. Munoz issued a response that mischaracterized what plainly happened in the video and termed the violent assault as a passenger "re-accommodation" (Taylor, 2017). Social media erupted with condemnation, which was echoed by late-night monologues. United was left with a damaged reputation, and its management was left wondering why their processes failed, what to do to mitigate the damage, and how to both restore their reputation and ensure that company values are followed in the future.

William Taylor (2017), in a commentary in Fortune, attributes United's "re-accommodation" disaster as the product of company policy, airport security procedures, pilot protocols, and the "wisdom of crowds." At each step, the gate agent, pilot, airport security, and the passengers themselves could have intervened but didn't.

Brian Fielkow, business leader, author, and keynote speaker, writing at Entrepreneur.com, outlined some points that apply to Munoz's response and the first reactions by United. Citing United's core values, Fielkow points to Munoz's failure to address the

incident in light of the company's values, take the blame, or even accurately describe what happened on the plane. Any one of these lapses in leadership would have caused confusion or stymied the recovery process. As a leader, Munoz was setting the tone for thousands of people. Seemingly abandoning United's core values likely caused a rift in trust or just simple confusion company-wide. Miscasting the situation in a world of smartphones and social media reach only multiplied the effect. As a leader, Munoz was duty-bound to take responsibility for what literally the entire world saw—a breach of social ethics, let alone United's core values. Failing to do this immediately created a problem larger than poorly planned company policy or just a perfect storm of contributing outside factors. Fielkow is keen to point out another crucial part of a company response— "You can't walk it back" (2017, n.p.). Before responding, leadership should take time to gather the facts and thoroughly consider the possibilities of how the message will be received. Again, Munoz's response failed at several key points, leading to the perception that Munoz's second statement was "an attempt at damage control" (Fielkow, 2017, n.p.).

William C. Taylor, co-founder of Fast Company, also criticized the lack of leadership across United. As the presumptive leader of the flight, shouldn't the pilot have done something? Why didn't the gate agent think outside the box to solve the problem of getting the crew members from Chicago to Louisville, Kentucky? Why didn't—or couldn't—the gate agent use what Taylor refers to as a "common sense and a little bit of creativity" and prevent a highly embarrassing (and ultimately expensive) fiasco? Taylor muses that he would like to think he would have done more than shoot video, but the passengers on the flight remained quiet and submissive, expressing no group outrage. Finally, Taylor questions the weak initial response from United's CEO, Oscar Munoz (2017), writing, "If CEO Oscar Munoz's goal was to make a disastrous situation even worse, well, he gets credit as a leader for succeeding at that." And of the board, he questions their response, and says that response will be a "make or break test" of the company's character (Taylor, 2017).

So, what will it take to lead United out of such a public mistake?

According to Brian Fielkow, the incident flew in the face of United's core values, values which should never be sacrificed. United should have acknowledged this and addressed that failure. United should have held itself accountable for the incident rather than try to deflect blame. Fielkow contends that Munoz's first response was to blame the passenger when Munoz should have accepted responsibility instead. Further, Fielkow writes that companies should anticipate what "can" go wrong, something the gate agents at United failed to do. Increasing passenger compensation to even three times the normal ticket price would have been cheaper than the PR nightmare (and stock price drop) that followed. After Munoz's tepid response failed to quell general complaints about United's handling of the passenger, he tried to issue a second "more appropriate" statement, but by then the damage had been done. Fielkow recommends waiting before issuing a response if need be. It's better to be prepared and issue a suitable response than to try to walk back a bad response. Above all, Fielkow recommends leaders "be human." The first response Munoz gave had little empathy and made him, and United, appear insensitive and callous. A company's first response should be to empathize with the customer, even if the customer is wrong. He writes, "When triaging a difficult problem, above all recognize the human factor" (Fielkow, 2017).

Writing in *Forbes*, Glenn Llopis emphasizes that how managers react to failure shapes their futures as leaders. Not only how leaders respond, but what they learn from a failure will affect how those leaders approach future decisions. Remember, you have to be doing something to fail; if you never fail, then you aren't stretching yourself. Venturing into the unknown and unfamiliar always risks failure (Llopis, 2012).

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Questions:

1. How have other airlines handled similar situations?

2. How much was in United Airlines' control, and how much was actually outside their control? What social or company factors caused a seemingly common practice to escalate to this level?
3. How did the other airlines or the industry respond to the United Airlines incident?

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CHAPTER OVERVIEW

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4.1: Biblical Insight



Applying the Bible to Business

In this chapter on Entrepreneurship, the class will explore the different aspects of business ownership. Business owners need wisdom and knowledge to have a thriving business. For example, Entrepreneurs need to know their competition, understand business law, know HR issues, apply leadership, and many more topics. Scripture states, “The one who gets wisdom loves life; the one who cherishes understanding will soon prosper” Proverbs 19:8. This scripture challenges us to be intentional about gaining wisdom and understanding to set a trajectory of success in the vocation of business.

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4.2: Introduction

Learning Objectives

After reading this chapter, you should be able to answer these questions:

- Why do people become entrepreneurs, and what are the different types of entrepreneurs?
- What characteristics do successful entrepreneurs share?
- How do small businesses contribute to the U.S. economy?
- What are the first steps to take if you are starting your own business?
- Why does managing a small business present special challenges for the owner?
- What are the advantages and disadvantages facing owners of small businesses?
- How does the Small Business Administration help small businesses?
- What trends are shaping entrepreneurship and small-business ownership?

Exploring Managerial Careers

Natalie Tessler, Spa Space

Natalie Tessler has always had an entrepreneurial spirit. After she graduated from New York University's law school, she began working as a tax attorney for a large firm in Chicago. But Tessler soon realized that this left her feeling unfulfilled. She didn't want to practice law, and she didn't want to work for someone else. "I wanted to wake up and be excited for my day," Tessler said. Not until one night, though, when she was having dinner with a friend who recently had begun a writing career, did she realize it was time. "I was listening to her talk about how much she loved her job. Her passion and excitement—I wanted that. I wanted something that grabbed me and propelled me through the day—and being a lawyer wasn't it."

She began searching for what "it" was. She had a tremendous passion and talent for hospitality, entertaining others, and presentation. Seeking an outlet for that flair, she found the spa industry, and the idea for Spa Space was born.

"People think that, owning a spa, I'm able to live this glamorous lifestyle," she laughs. "Owning a spa is nothing like going to one—my nails always are broken from fixing equipment; my back is usually in pain from sitting hunched over a computer trying to figure out the budget or our next marketing promotion." Tessler is a true entrepreneur, embodying the spirit and drive necessary to see her vision become a reality.

Tessler wanted to design a spa that focused on something new: creating a comfortable, personalized environment of indulgence while not neglecting the medical technology of proper skin care. "My father's a dermatologist, so we discussed the importance of making this more than a spa where you can get a frou-frou, smell-good treatment that might actually harm your skin. We both thought it was important to create an experience that is as beneficial for people's skin as it is for their emotional well-being." To address this need, Spa Space has a medical advisory board that helps with product selection, treatment design, and staff training.

Armed with a vision and a plan, Tessler turned her sights toward making it a reality. Spa Space opened in 2001 and has received a great deal of national recognition for its service excellence, unique treatments and products, and its fresh approach to appealing to both men and women. But it hasn't always been smooth sailing for Spa Space. Tessler had to steer the business through several obstacles, including the 9/11 tragedy just three months after the spa's grand opening, and then the Great Recession. Tessler learned to adapt her strategy by refining her target market and the services Spa Space offered. Her resiliency enabled the company not only to survive difficult economic periods but to thrive and grow 17 years later into what the press recognizes as Chicago's best spa.

Tessler recently turned the reins over to Ilana Alberico, another entrepreneur and founder of Innovative Spa Management, a company that has been named twice to Inc.'s magazine list of fastest-growing companies. When Alberico met Natalie Tessler and learned about her vision, she was inspired to invest in Spa Space. "Natalie's vision still resonates . . . I'm inspired to champion her vision into the future."

Sources:

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Typical of many who catch the entrepreneurial bug, Natalie Tessler had a vision and pursued it single-mindedly. She is just one of thousands of entrepreneurs from all age groups and backgrounds. Even kids are starting businesses and high-tech firms. College graduates are shunning the corporate world to head out on their own. Downsized employees, mid-career executives, and retirees who have worked for others all their lives are forming the companies they have always wanted to own.

Companies started by entrepreneurs and small-business owners make significant contributions to the U.S. and global economies. Hotbeds of innovation, these small businesses take leadership roles in technological change and the development of new goods and services. Just how important are small businesses to our economy? Table 4.1 provides insight into the role of small businesses in today's economy.

Table 4.1

The Economic Impact of Small Business
Most U.S. Businesses Are Small:
• Most businesses are small: 99.9% of American businesses. • There are 33,185,550 small businesses in the United States. • Small businesses employ 61.7 million Americans, totaling 46.4% of private-sector employees. • From 1995 to 2021, small businesses created 17.3 million new jobs, accounting for 62.7% of net jobs created since 1995. • Small businesses pay 39.4% percent of private sector payroll. • Small businesses generate 32.6% percent of known export value. • About 38% of small businesses use specialized software in their business operations.

Table 4.1 Source: "**Frequently Asked Questions About Small Business,**" https://www.sba.gov, accessed March 7, 2023.

You may be one of the millions of Americans who are considering joining the ranks of business owners. As you read this chapter, you'll learn why entrepreneurship is one of the hottest areas of business activity. Then, get the information and tools you need to help you decide whether owning your own company is the right career path for you. Next, you will discover the characteristics required to become a successful entrepreneur. Then, we will look at the importance of small businesses in the economy, guidelines for starting and managing a small business, the many reasons small businesses continue to thrive in the United States, and the role of the Small Business Administration. Finally, the chapter explores the trends that shape entrepreneurship and small-business ownership today.

Case Study: Reed Hastings from Netflix 4.2.1





Reed Hastings's success came from a simple idea and an idea that one could even say is logical and may perhaps been thought of by anyone. Netflix was created because Hastings was frustrated at paying late rental fees for video cassettes at the local Blockbuster video store in town. Netflix, a revolutionary subscription-based movie rental service concept, completely altered how the world viewed movies. Netflix continues evolving by partnering with numerous movie studios and creating original films and shows. Reed Hastings is an entrepreneur and philanthropist who is Netflix's co-founder and chief executive officer. He is also on the board of the social networking website for Facebook and several non-profit organizations.

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4.3: Entrepreneurship

Learning Objectives

1. Why do people become entrepreneurs, and what are the different types of entrepreneurs?

Brothers Fernando and Santiago Aguerre exhibited entrepreneurial tendencies at an early age. At 8 and 9 years old, respectively, they sold strawberries and radishes from a vacant lot near their parents' home in Plata del Mar on the Atlantic coast of Argentina. At 11 and 12, they provided a surfboard repair service from their garage. As teenagers, Fer and Santi, as they call each other, opened Argentina's first surf shop, which led to their most ambitious entrepreneurial venture of all.

The flat-footed brothers found that traipsing across hot sand in flip-flops was uncomfortable, so in 1984, they sank their $4,000 savings into manufacturing their own line of beach sandals. Now offering sandals and footwear for women, men, and children, as well as clothing for men, Reef sandals have become the world's hottest beach footwear, with a presence in nearly every surf shop in the United States (McMahon, 2005).

Most U.S. Businesses Are Small:

The Economic Impact of Small Business

- 80% (approximately 23.8 million) of the nearly 29.7 million businesses have no employees (businesses run by individuals or small groups of partners, such as married couples).
- 89% (approximately 5.2 million) of the nearly 5.8 million businesses with employees have fewer than 20 employees.
- 99.6% (approximately 5.7 million) of all businesses have 0–99 employees—98% have 0–20 workers.
- Approximately 5.8 million businesses have fewer than 500 employees.
- Only about 19,000 businesses in the United States have more than 500 employees.
- Companies with fewer than 50 employees pay over 20% of America's payroll.
- Companies with fewer than 500 employees pay more than 41% of America's payroll.
- 32.5 million people (1 employee in 4) work for businesses with fewer than 50 employees.
- These businesses also pay tens of millions of owners, not included in employment statistics.

Table 4.1 Source:

"Firm Size Data: 2014," https://www.sba.gov, accessed February 1, 2018.

Catching the Entrepreneurial Spirit

Young Entrepreneur Living the Dream

Jack Bonneau is the quintessential entrepreneur. In the three years he has been in business, he has expanded his product line, opened multiple locations, established strategic partnerships, and secured sponsorship from several national brands. His business has garnered publicity from *The New York Times*, *The Denver Post*, *The Today Show*, *Good Morning America*, and numerous other media. He has shared his business success on several stages, speaking at TechStars and the Aspen Ideas Festival, and recently delivered the closing keynote speech at a national STEM conference. He even landed a gig on *Shark Tank*.

Jack Bonneau is smart, charismatic, an excellent spokesperson, and persistent in his mission. And he is only 11 years old—which also makes him very adorable.

Jack's business was born from a need that most kids have: a desire for toys. He asked his dad, Steve Bonneau, for a LEGO Star Wars Death Star. The problem was that it cost $400. Jack's dad said he could have it, but only if he paid for it himself. This led Jack to do what many kids do to earn some extra cash. He opened a lemonade stand. But he quickly learned that this would never help him realize his dream, so, with the advice and help of his father, he decided to open a lemonade stand at a local farmers market. "There were lots of people who wanted to buy great lemonade from an eight-year-old," says Jack. In no time, Jack had earned enough to buy his LEGO Death Star. "I had sales of around $2,000, and my total profit was $900," Jack said.

Jack realized that he was on to something. Adults love to buy things from cute kids. What if he could make even more money by opening more locations? Jack developed an expansion plan to open three new "Jack Stands" the following spring. Realizing that he would need more working capital, he secured a $5,000 loan from Young Americas Bank, a Denver bank specializing in loans to children. Jack made $25,000 in 2015.

Jack wanted to expand operations the following year, so he secured a second loan for $12,000. He opened stands in several more locations, including shopping malls during the holiday season, selling apple cider and hot chocolate instead of lemonade. He also added shop space and recruited other young entrepreneurial kids to sell their products in his space, changing the name to Jack's Stands and Marketplace. One of his first partnerships was Sweet Bee Sisters, a lip balm and lotion company founded by Lily, Chloe, and Sophie Warren. He also worked with 18 other young entrepreneurs who sell products from organic dog treats to scarves and headbands.

Jack's strategy worked, bringing in more than $100,000 last year. This year, he became the spokesperson for Santa Cruz Organic Lemonade, and he's now looking at expanding into other cities such as Detroit and New Orleans.

Even though Jack is only 11 years old, he has already mastered financial literacy, customer service, marketing and sales, social skills, and other sound business practices—all the qualities of a successful entrepreneur.

Critical Thinking Questions

1. What do you think enabled Jack Bonneau to start and grow a successful business at a young age?
2. What personal characteristics and values will Jack need to continue running his business while attending school full-time?

Sources:

Jack's Stand. (2018). *About Jack's stands & marketplaces.* www.jackstands.com, accessed February 1, 2018. Site inactive on 13 March 2024.

Gasca, P. (2017). This 11-year-old founder's advice is as profound as any you could receive. *Inc.* https://www.inc.com/peter-gasca/this-11-year-old-founders-advice-is-as-profound-as.html, accessed July 27, 2017.

Martin, C. (2016). Some kids sell lemonade. He starts a chain. *The New York Times.* https://www.nytimes.com/2016/02/28/business/young-entrepreneurs-sweeten-the-lemonade-stand-model.html, February 26, 2016.

Christy Glass Lowe, who monitors surf apparel for USBX Advisory Services LLC, notes, "They [Reef] built a brand from nothing, and now they're the dominant market share leader."

The Aguerres, who currently live two blocks apart in La Jolla, California, sold Reef to VF Corporation for more than $100 million in 2005. In selling Reef, "We've finally found our freedom," Fernando says. "We traded money for time," adds Santiago. Fernando remains active with surfing organizations, serving as president of the International Surfing Association, where he became known as "Ambassador of the Wave" for his efforts in getting all 90 worldwide members of the International Olympic Committee to unanimously vote in favor of including surfing in the 2020 Olympic Games (Pierson, 2016). He has also been named "Waterman of the Year" by the Surf Industry Manufacturers Association two times in 24 years (Chapple, 2013). Santi raises funds for his favorite not-for-profit, SurfAid. Both brothers enjoy serving in an industry that has served them so well.

The United States is blessed with a wealth of entrepreneurs, such as the Aguerres, who want to start a **small business**. According to research by the Small Business Administration, two-thirds of college students intend to be entrepreneurs at some point, aspiring to become the next Bill Gates or Jeff Bezos, founder of Amazon.com. But before you put out any money or expend energy and time, you'd be wise to check out Table 4.2 for some preliminary advice.

The desire to be one's own boss cuts across all age, gender, and ethnic lines. Results of a 2018 U.S. Census Bureau survey of business owners show that minority groups and women are becoming business owners at a much higher rate than the national average. Exhibit 4.4 illustrates these minority-owned business demographics in the next section of this chapter.

Why has entrepreneurship remained such a strong part of the foundation of the U.S. business system for so many years? Because today's global economy rewards innovative, flexible companies that can respond quickly to changes in the business environment.

Such companies are started by **entrepreneurs**—people with vision, drive, and creativity who are willing to take the risk of starting and managing a business to make a profit.

Table 4.2

Are You Ready to Be an Entrepreneur
Here are some questions would-be entrepreneurs should ask themselves: 1. What is new and novel about your idea? Are you solving a problem or unmet need? 2. Are there similar products/services out there? If so, what makes yours better? 3. Who is your target market? How many people would use your product or service? 4. Have you talked with potential customers to get their feedback? Would they buy your product/ service? 5. What about production costs? How much do you think the market will pay? 6. How defensible is the concept? Is there good intellectual property? 7. Is this innovation strategic to my business? 8. Is the innovation easy to communicate? 9. How might this product evolve over time? Would it be possible to expand it into a product line? Can it be updated/enhanced in future versions? 10. Where would someone buy this product/service? 11. How will the product/service be marketed? What are the costs to sell and market it? 12. What are the challenges involved in developing this product/service?

Table 4.2 Sources:

Collins, M. (2005). “Before You Start–Innovator’s Inventory,” The Wall Street Journal, May 9, 2005, p. R4.

Ekstrom, J. (2018). “5 Questions to Ask Yourself Before You Start a Business,” Entrepreneur, https://www.entrepreneur.com.

Market Smarter. (2018). “Resources,” http://www.marketsmarter.com.

Reece, M. (2010). *Real-Time Marketing for Business Growth: How to Use Social Media, Measure Marketing, and Create a Culture of Execution*, Upper Saddle River, NJ: FT Press/Pearson.

Table 4.3

Statistics for Minority-Owned Businesses
• According to the U.S. Census in 2020, there were a total of 5,775,258 U.S. firms in all sectors. Approximately 20% or 1.2 million of employer businesses were owned by minorities. They employed about 9.9 million employees and had annual payroll of $357.4 billion. • Hispanic-owned businesses grew about 8.2%, from 346,836 in 2019 to 375,256 in 2020, and made up about 6.5% of all businesses in the United States in 2020. • There were 140,918 U.S. Black- or African American-owned businesses — across all sectors of the economy — in 2020 with annual sales of $141.1 billion. They employed 1.3 million people. • Almost a million firms with employees are minority owned: 53% are Asian American-owned, 11% are African American-owned, and almost a third are Hispanic-owned. • Women business owners own over 12 million businesses and employ over 10.1 million workers.

Table 4.3 Sources:

Lee, L. (2023). "Minority Business Ownership Differs by Sector", U.S. Census, https://www.census.gov.

Office of Advocacy. (2023). "Facts about Small Business: Women Ownership Statistics", SBA, https://advocacy.sba.gov/2023/03/21/facts-about-small-business-women-ownership-statistics/.

Entrepreneur or Small-Business Owner?

The term *entrepreneur* is often used broadly to include most small-business owners. The two groups share some of the same characteristics, and we’ll see that some reasons for becoming an entrepreneur or a small-business owner are very similar. But there

is a difference between entrepreneurship and small-business management. Entrepreneurship involves taking a risk, either to create a new business or to greatly change the scope and direction of an existing one. Entrepreneurs typically are innovators who start companies to pursue their ideas for a new product or service. They are visionaries who spot trends.

Although entrepreneurs may be small-business owners, not all small-business owners are entrepreneurs. Small-business owners are managers or people with technical expertise who started a business or bought an existing business and made a conscious decision to stay small. For example, the proprietor of your local independent bookstore is a small-business owner. Jeff Bezos, founder of Amazon.com, also sells books. But Bezos is an entrepreneur: he developed a new model—web-based book retailing—that revolutionized the bookselling world and then moved on to change retailing in general. Entrepreneurs are less likely to accept the status quo and generally take a longer-term view than small-business owners.

Types of Entrepreneurs

Entrepreneurs fall into several categories: **classic entrepreneurs**, **multipreneurs**, and **intrapreneurs**.

Classic Entrepreneurs

Classic entrepreneurs are risk-takers who start their own companies based on innovative ideas. Some classic entrepreneurs are *micropreneurs* who start small and plan to stay small. They often start businesses just for personal satisfaction and the lifestyle. Miho Inagi is a good example of a micropreneur. On a visit to New York with college friends in 1998, Inagi fell in love with the city's bagels. "I just didn't think anything like a bagel could taste so good," she said. Her passion for bagels led the young office assistant to quit her job and pursue her dream of one day opening her own bagel shop in Tokyo. Although her parents tried to talk her out of it, and bagels were virtually unknown in Japan, nothing deterred her. Other trips to New York followed, including an unpaid six-month apprenticeship at Ess-a-Bagel, where Inagi took orders, cleared trays, and swept floors. On weekends, owner Florence Wilpon let her make dough.

In August 2004, using $20,000 of her own savings and a $30,000 loan from her parents, Inagi finally opened tiny Maruichi Bagel. The timing was fortuitous, as Japan was about to experience a bagel boom. After a slow start, a favorable review on a local bagel website brought customers flocking for what are considered the best bagels in Tokyo. Inagi earns only about $2,300 a month after expenses, the same amount she was making as a company employee. "Before I opened this store I had no goals," she says, "but now I feel so satisfied" (Morse, 2005).

In contrast *growth-oriented entrepreneurs* want their businesses to grow into major corporations. Most high-tech companies are formed by growth-oriented entrepreneurs. Jeff Bezos recognized that with Internet technology, he could compete with large chains of traditional book retailers. Bezos's goal was to build his company into a high-growth enterprise—and he chose a name that reflected his strategy: Amazon.com. Once his company succeeded in the book sector, Bezos applied his online retailing model to other product lines, from toys and house and garden items to tools, apparel, music, and services. In partnership with other retailers, Bezos is well on his way to making Amazon's vision "Earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online"—a reality (Farfan, 2018).

Multipreneurs

Then there are *multipreneurs*, entrepreneurs who start a series of companies. They thrive on the challenge of building a business and watching it grow. In fact, over half of the chief executives at *Inc. 500* companies say they would start another company if they sold their current one. Brothers Jeff and Rich Sloan are a good example of multipreneurs, having turned numerous improbable ideas into successful companies. Over the past 20-plus years, they have renovated houses, owned a horse breeding and marketing business, invented a device to prevent car batteries from dying, and so on. Their latest venture, a multimedia company called StartupNation, helps individuals realize their entrepreneurial dreams. And the brothers know what company they want to start next: yours (StartupNation, 2024).



Exhibit 4.2 If there is one person responsible for the mainstream success of solar energy and electric vehicles in the past 10 years, it's Elon Musk, founder and CEO of Tesla. Since the 2000s when he founded Tesla, launching innovation in solar technology, and commercial space exploration with SpaceX, Musk has pioneered countless innovations challenged traditional automobile, trucking, and energy companies to challenge and rethink their businesses. What entrepreneurial type best describes Elon Musk? (Credit: Steve Jurvetson/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Intrapreneurs

Some entrepreneurs don't own their own companies but apply their creativity, vision, and risk-taking within a large corporation. Called ***intrapreneurs***, these employees enjoy the freedom to nurture their ideas and develop new products, while their employers provide regular salaries and financial backing. Intrapreneurs have a high degree of autonomy to run their own mini-companies within the larger enterprise. They share many of the same personality traits as classic entrepreneurs, but they take less personal risk. According to Gifford Pinchot, who coined the term *intrapreneur* in his book of the same name, large companies provide seed funds that finance in-house entrepreneurial efforts. These include Intel, IBM, Texas Instruments (a pioneering intrapreneurial company), Salesforce.com, and Xerox.

Why Become an Entrepreneur?

As the examples in this chapter show, entrepreneurs are found in all industries and have different motives for starting companies. The most common reason cited by CEOs of *Inc. 500*, the magazine's annual list of fastest-growing private companies, is the challenge of building a business, followed by the desire to control their own destiny. Other reasons include financial independence and the frustration of working for someone else. Two important motives mentioned in other surveys are a feeling of personal satisfaction with their work and creating the lifestyle they want. Do entrepreneurs feel that going into business for themselves was worth it? The answer is a resounding yes. Most say they would do it again.

? Concept Check

Describe several types of entrepreneurs.

What differentiates an entrepreneur from a small-business owner?

What are some major factors that motivate entrepreneurs to start businesses?

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4.4: Characteristics of Successful Entrepreneurs

Learning Objectives

1. What characteristics do successful entrepreneurs share?

Do you have what it takes to become an entrepreneur? Having a great concept is not enough. An entrepreneur must be able to develop and manage the company that implements his or her idea. Being an entrepreneur requires special drive, perseverance, passion, and a spirit of adventure, in addition to managerial and technical ability. Entrepreneurs *are* the company; they tend to work longer hours, take fewer vacations, and cannot leave problems at the office at the end of the day. They also share other common characteristics as described in the next section.

The Entrepreneurial Personality

Studies of the entrepreneurial personality find that entrepreneurs share certain key traits. Most entrepreneurs are

- ***Ambitious**:* They are competitive and have a high need for achievement.
- ***Independent**:* They are individualists and self-starters who prefer to lead rather than follow.
- ***Self-confident**:* They understand the challenges of starting and operating a business and are decisive and confident in their ability to solve problems.
- ***Risk-takers**:* Although they are not averse to risk, most successful entrepreneurs favor business opportunities that carry a moderate degree of risk where they can better control the outcome over highly risky ventures where luck plays a large role.
- ***Visionary**:* Their ability to spot trends and act on them sets entrepreneurs apart from small-business owners and managers.
- ***Creative**:* To compete with larger firms, entrepreneurs must have creative product designs, bold marketing strategies, and innovative solutions to managerial problems.
- ***Energetic**:* Starting and operating a business takes long hours. Even so, some entrepreneurs start their companies while still employed full-time elsewhere.
- ***Passionate**:* Entrepreneurs love their work, as Miho Inagi demonstrated by opening a bagel shop in Tokyo despite the odds against its being a success.
- ***Committed**:* Because enterpreneurs are so committed to their companies, they are willing to make personal sacrifices to achieve their goals.

Ethics in Practice

Ethical Choices Transform Family Business into International Brand

Ever since Apollonia Poilâne was a young girl growing up in Paris, she always knew what she wanted to do when she grew up: take over the family business. But she didn't anticipate how quickly this would happen. When her father—Lionel Poilâne—and her mother died in a helicopter crash in 2002, France lost its most celebrated baker, and Apollonia stepped into the role. She was just 18 years old at the time with plans to matriculate to Harvard in the fall, but the moment her parents had prepared her for had come. As her Harvard admissions essay said, "The work of several generations is at stake."

With organization and determination, Apollonia managed one of the best French bakeries in the world—based in Paris—from her apartment in Cambridge, Massachusetts. She would usually wake up an extra two hours before classes to ensure she would get all the phone calls done for work. "After classes, I check on any business regarding the company and then do my homework," she says. "Before I go to bed, I call my production manager in Paris to check the quality of the bread." Because the name Poilâne has earned a place with a very small group of prestige bakers, the 18-year-old was determined to continue the tradition of customer satisfaction and quality her grandfather established in 1932. When her grandfather suffered a stroke in 1973, his 28-year-old son, Lionel, poured his heart into the business and made the family bread into the global brand it is today. Lionel opened two more bakeries in Paris and another in London. He developed and nurtured a worldwide network of retailers and celebrities where bread is shipped daily via FedEx to upscale restaurants and wealthy clients around the world.

Experimenting with sourdough is what distinguished Poilâne's products from bread produced by Paris's other bakers, and it has remained the company's signature product. It is baked with a "P" carved into the crust, a throwback to the days when the

use of communal ovens forced bakers to identify their loaves, and it also ensures that the loaf doesn't burst while it's baking. Today, Poilâne also sells croissants, pastries, and a few specialty breads, but the company's signature item is still the four-poundmiche, a wheel of sourdough, a country bread, *pain Poilâne*.

"Apollonia is definitely passionate about her job," says Juliette Sarrazin, manager of the successful Poilâne Bakery in London. "She really believes in the work of her father and the company, and she is looking at the future, which is very good."

Apollonia's work ethic and passion fueled her drive even as a student. Each day presented a juggling act of new problems to solve in Paris while other Harvard students slept. As Apollonia told a student reporter from *The Harvard Crimson*, "The one or two hours you spend procrastinating, I spend working. It's nothing demanding at all. It has always been my dream to run a company."

Her dedication paid off, and Apollonia retained control of important decisions, strategy, and business goals, describing herself as the "commander of the ship," determining the company's overall direction. Today, Poilâne is an $18 million business that employs 160 people. Poilâne runs three restaurants called Cuisine de Bar in Paris and London, serving casual meals such as soups, salads, and open-faced *tartines*. The company ships more than 200,000 loaves a year to clients in 20 countries, including the United States, Japan, and Saudi Arabia. "More people understand what makes the quality of the bread, what my father spent years studying, so I am thrilled about that," says Apollonia.

Critical Thinking Questions

1. What type of entrepreneur is Apollonia Poilâne?
2. What personal ethics drove Apollonia's decision to take over the family business?

Sources:

Antoine, C. (2003). No time to loaf around. *Harvard Crimson.* http://www.thecrimson.com. October 16, 2003.

Bortin, M. (2018). Apollonia Poilâne builds on her family's legacy. *The New York Times.* https://www.nytimes.com.

Collins, L. (2012). Bread winner: A daughter upholds the traditions of France's premier baking dynasty. *The New Yorker.* December 3, 2012.https://www.newyorker.com,

Katz, G. (2005). Her daily bread. *American Way Magazine.*

Poilâne. (2018). *About us.* https://www.poilane.com.

Most entrepreneurs combine many of the above characteristics. Sarah Levy, 23, loved her job as a restaurant pastry chef but not the low pay, high stress, and long hours of a commercial kitchen. So she found a new one—in her parents' home—and launched Sarah's Pastries and Candies. Part-time staffers help her fill pastry and candy orders to the soothing sounds of music videos playing in the background. Cornell University graduate Conor McDonough started his own web design firm, OffThePathMedia.com, after becoming disillusioned with the rigid structure of his job. "There wasn't enough room for my own expression," he says. "Freelancing keeps me on my toes," says busy graphic artist Ana Sanchez. "It forces me to do my best work because I know my next job depends on my performance" (Irvine, 2004).



Ashton KutcherExhibit 4.3 Celebrity Ashton Kutcher is more than just a pretty face. The actor-mogul is an active investor in technology-based start-ups such as Airbnb, Skype, and Foursquare, with an empire estimated at $200 million. What personality traits are common to successful young entrepreneurs such as Kutcher? (Credit: TechCrunch/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Managerial Ability and Technical Knowledge

A person with all the characteristics of an entrepreneur might still lack the necessary business skills to run a successful company. Entrepreneurs need the technical knowledge to carry out their ideas and the managerial ability to organize a company, develop operating strategies, obtain financing, and supervise day-to-day activities. Jim Crane, who built Eagle Global Logistics from a start-up into a $250 million company, addressed a group at a meeting, saying, “I have never run a $250 million company before, so you guys are going to have to start running this business” (McFarland, 2005).

Good interpersonal and communication skills are important in dealing with employees, customers, and other business associates such as bankers, accountants, and attorneys. As discussed in the chapter, entrepreneurs believe they can learn these much-needed skills. When Jim Steiner started his toner cartridge remanufacturing business, Quality Imaging Products, his initial investment was $400. He spent $200 on a consultant to teach him the business and $200 on materials to rebuild his first printer cartridges. He made sales calls from 8.00 a.m. to noon and made deliveries to customers from noon until 5:00 p.m. After a quick dinner, he moved to the garage, filling copier cartridges until midnight, when he collapsed into bed, sometimes covered with carbon soot. This was not something he did for a couple of months until he got the business off the ground—this was his life for 18 months (McFarland, 2005). But entrepreneurs usually soon learn that they can’t do it all themselves. Often, they choose to focus on what they do best and hire others to do the rest.

? Concept Check

1. Describe the personality traits and skills characteristic of successful entrepreneurs.
2. What does it mean when we say that an entrepreneur should work on the business, not in it?

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4.5: Small Business

Learning Objectives

1. How do small businesses contribute to the U.S. economy?

Although large corporations dominated the business scene for many decades, in recent years small businesses have once again come to the forefront. Downsizing accompanying economic downturns have caused many people to look toward smaller companies for employment, and they have plenty to choose from. Small businesses play an important role in the U.S. economy, representing about half of U.S. economic output, employing about half the private sector workforce, and giving individuals from all walks of life a chance to succeed.

What Is a Small Business?

How many small businesses are there in the United States? Estimates range from 5 million to over 22 million, depending on the size limits government agencies and other groups use to define a small business or the number of businesses with or without employees. The Small Business Administration (SBA) established size standards to define whether a business entity is small and, therefore, eligible for government programs and preferences reserved for "small businesses." Size standards are based on the types of economic activity or industry, generally matched to the North American Industry Classification System (NAICS) (U.S. Small Business Administration, 2018).

Small businesses are defined in many ways. Statistics for small businesses vary based on criteria such as new/ start-up businesses, the number of employees, total revenue, length of time in business, non-employees, businesses with employees, geographic location, and so on. Due to the complexity and need for consistent statistics and reporting for small businesses, several organizations are now working together to combine comprehensive data sources to get a clear and accurate picture of small businesses in the United States. Table 4.4 provides a more detailed look at small-business owners.

Table 4.4

Snapshot of Small-Business Owners

- Start-up activity has risen sharply over the last three years, from an all-time low of minus 0.87% in 2013 to a positive 0.48% in 2016.
- Between 1996 and 2011, the rate of business ownership dropped for both men and women; however, business ownership has increased every year since 2014.
- The Kauffman Index of Startup Activity, an early indicator of new entrepreneurship in the United States, rose again slightly in 2016 following sharp increases two years in a row.
- New entrepreneurs who started businesses to pursue opportunity rather than from necessity reached 86.3%, more than 12 percentage points higher than in 2009 at the height of the Great Recession.
- For the first time, Main Street entrepreneurship activity was higher in 2016 than before the onset of the Great Recession. This increase was driven by a jump in business survival rates, which reached a three-decade high of 48.7%. Nearly half of new businesses are making it to their fifth year of operation.
- 47% of U.S. businesses have been in business for 11 or more years.
- In 2016, about 25% of all employing firms had revenues over $1 million, but 2% had revenues under $10,000.

Sources:

Kauffman. (2016a). The Kauffman index: Main Street entrepreneurship: National trends. http://www.kauffman.org.

Kauffman. (2016b). Kauffman Index of Startup Activity, 2016 (calculations based from CPS, BDS, and BED). http://www.kauffman.org.

United States Census Bureau. (2016). America's entrepreneurs: September 2016. https://www.census.gov.

United States Census Bureau. (2024). Nearly 1 in 10 businesses with employees are new, according to inaugural annual survey of entrepreneurs." https://www.census.gov.

Table 4.4

One of the best sources for tracking U.S. entrepreneurial growth activity is the Ewing Marion Kauffman Foundation. The Kauffman Foundation is among the largest private foundations in the country, with an asset base of approximately $2 billion, and focuses on projects that encourage entrepreneurship and support education through grants and research activities. They distributed over $17 million in grants in 2013 (The Kauffman Foundation, 2018).

The Kauffman Foundation supports new business creation in the United States through two research programs. The annual Kauffman Index of Entrepreneurship series measures and interprets indicators of U.S. entrepreneurial activity at the national, state, and metropolitan level. The foundation also contributes to the cost of the Annual Survey of Entrepreneurs (ASE), which is a public–private partnership between the foundation, the U.S. Census Bureau, and the Minority Business Development Agency. The ASE provides annual data on select economic and demographic characteristics of employer businesses and their owners by gender, ethnicity, race, and veteran status (United States Census Bureau, 2023). The Kauffman Index of Entrepreneurship series is an umbrella of annual reports that measures how people and businesses contribute to America's overall economy. What is unique about the Kauffman reports is that the indexes don't focus on only inputs (as most small-business reporting has been done in the past); it reports primarily on entrepreneurial outputs—the actual results of entrepreneurial activity, such as new companies, business density, and growth rates. The reports also include comprehensive, interactive data visualizations that enable users to slice and dice a myriad of data nationally, at the state level, and for the 40 largest metropolitan areas (The Kauffman Foundation, 2024).

The Kauffman Index series consists of three in-depth studies—Start-up Activity, Main Street Entrepreneurship, and Growth Entrepreneurship.

- The Kauffman Index of Startup Activity is an early indicator of new entrepreneurship in the United States. It focuses on new business creation activity and people engaging in business start-up activity. it uses three components: the rate of new entrepreneurs, the opportunity share of new entrepreneurs, and start-up density.
- The Kauffman Index of Main Street Entrepreneurship measures established small-business activity—focusing on U.S. businesses more than five years old with less than 50 employees from 1997 to 2016. Established in 2015, it considers three components of local, small-business activity: the rate of business owners in the economy, the five-year survival rate of businesses, and the established small business density.
- The Kauffman Growth Entrepreneurship Index is a composite measure of entrepreneurial business growth in the United States that captures growth entrepreneurship in all industries and measures business growth from both revenue and job perspectives. Established in 2016, it includes three component measures of business growth: rate of start-up growth, share of scale-ups, and high-growth company density.

Data sources for the Kauffman Index calculations are based on Current Population Survey (CPS), with sample sizes of more than 900,000 observations, and the Business Dynamics Statistics (BDS), which covers approximately 5 million businesses. The Growth Entrepreneurship Index also includes *Inc.* 500/5000 data).

Small businesses in the United States can be found in almost every industry, including services, retail, construction, wholesale, manufacturing, finance and insurance, agriculture and mining, transportation, and warehousing. Established small businesses are defined as companies that have been in business at least five years and employ at least one, but less than 50, employees. Table 4.5 provides the number of employees by the size of established business. More than half of small businesses have between one and four employees.

Table 4.5

Number of Employees, by Percentage of Established Small Businesses

Established small businesses are defined as businesses over the age of five employing at least one, but less than 50, employees.

Number of Employees	Percentage of Businesses
1-4 employees	53.07%
5-9 employees	23.23%
10-19 employees	14.36%
20-49 employees	9.33%

Table 4.5 Source: Kauffman Foundation calculations from Business Dynamics Statistics, yearly measures. November 2016.

Concept Check

1. What are three ways small businesses can be defined?
2. What social and economic factors have prompted the rise in small business?

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4.6: Start Your Own Business

Learning Objectives

1. What are the first steps to take if you are starting your own business?

You have decided that you'd like to go into business for yourself. What is the best way to go about it? Start from scratch? Buy an existing business? Or buy a franchise? About 75% of business start-ups involve brand-new organizations, with the remaining 25% representing purchased companies or franchises. Franchising may have been discussed elsewhere in your course, so we'll cover the other two options in this section.

Getting Started

The first step in starting your own business is a self-assessment to determine whether you have the personal traits you need to succeed and, if so, what type of business would be best for you. Table 4.6 provides a checklist to consider before starting your business.

Finding the Idea

Entrepreneurs get ideas for their businesses from many sources. It is not surprising that about 80% of *Inc. 500* executives thought of the idea for their company while working in the same or a related industry. Starting a firm in a field where you have experience improves your chances of success. Other sources of inspiration are personal experiences as a consumer, hobbies and personal interests, suggestions from customers, family, and friends, industry conferences, and college courses or other education.

Table 4.6

Checklist for Starting a Business
Before you start your own small business, consider the following checklist: • Identify your reasons • Self-analysis • Personal skills and experience • Finding a niche • Conduct market research • Plan your start-up: write a business plan • Finances: how to fund your business Source: U.S. Small Business Administration. (2018). "10 Steps to Start Your Business," https://www.sba.gov.

Table 4.6

An excellent way to keep up with small-business trends is by reading entrepreneurship and small-business magazines and visiting their websites. With articles on everything from idea generation to selling a business, they provide an invaluable resource and profile some of the young entrepreneurs and their successful business ventures (Table 4.7) (Inc. Staff, 2017).

Table 4.7

Successful Entrepreneurs

Name and Age	Company and Description
Philip Kimmey, 27	Kimmey's dog-sitting and dog-walking network, Rover.com, raised almost $100 million in venture capital and was valued at $300 million in 2017.
Max Mankin, 27	Mankin cofounded Modern Electron and raised $10 million in venture capital to create "advanced thermionic energy converters" that will generate "cheap, scalable, and reliable electricity." Modern Electron will turn every home into a power station.
Alexandra Cristin White, 28	In her early 20s, White founded Glam Seamless, which sells tape-in hair extensions. In 2016, her self-funded company grossed $2.5 million.
Steph Korey, 29; Jen Rubio, 29	Korey and Rubio founded Away, selling "first-class luggage at a coach price" in 2015. They raised $31 million in funding and grossed $12 million in sales in 2016.
Allen Gannet, 26	Gannet founded TrackMaven, a web-marketing analytics company, in 2012; by 2016, his company was grossing $6.7 million a year.
Jake Kassan, 25; Kramer LaPlante, 25	Kassan and Kramer launched their company, MVMT, through Indiegogo, raising $300,000, and in 2016 grossed $60 million, selling primarily watches and sunglasses.
Brian Streem, 29	Streem's company, Aerobo, provides drone services to the film industry, selling "professional aerial filming and drone cinematography." Aerobo grossed $1 million in 2016, its first full year of business.
Natalya Bailey, 30; Louis Perna, 29	Accion Systems began in 2014, raised $10 million in venture funding, and grossed $4.5 million in 2016, making tiny propulsion systems for satellites.
Jessy Dover, 29	Dover is the cofounder of Dagne Dover, a company making storageefficient handbags for professional women. She and her cofounders grossed $4.5 million in 2016 and debuted on Nordstrom.com in 2017.

Table 4.7 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4. license)

These dynamic individuals, who are already so successful in their 20s and 30s, came up with unique ideas and concepts and found the right niche for their businesses.

Interesting ideas are all around you. Many successful businesses get started because someone identifies a need and then finds a way to fill it. Do you have a problem that you need to solve? Or a product that doesn't work as well as you'd like? Raising questions about the way things are done and seeing opportunity in adversity are great ways to generate ideas.

Choosing a Form of Business Organization

A key decision for a person starting a new business is whether it will be a sole proprietorship, partnership, corporation, or limited liability company. As discussed earlier, each type of business organization has advantages and disadvantages. The choice depends on the type of business, number of employees, capital requirements, tax considerations, and level of risk involved.

Developing the Business Plan

Once you have the basic concept for a product or service, you must develop a plan to create the business. This planning process, culminating in a sound **business plan**, is one of the most important steps in starting a business. It can help attract appropriate loan financing, minimize risks, and, critically, determine whether a firm succeeds or fails. Many people do not venture out on their own

because they are overwhelmed with doubts and concerns. A comprehensive business plan lets you run various “what if” analyses and evaluate your business without any financial outlay or risk. You can also develop strategies to overcome problems well before starting the business.

Taking the time to develop a good business plan pays off. A venture that seems sound at the idea stage may not look so good on paper. A well-prepared, comprehensive, written business plan forces entrepreneurs to take an objective and critical look at their business venture and analyze their concept carefully; make decisions about marketing, sales, operations, production, staffing, budgeting, and financing; and set goals that will help them manage and monitor its growth and performance.



Exhibit 4.4 Each year, a variety of organizations hold business plan competitions to engage the growing number of college students starting their own businesses. The University of Essex and the iLearn entrepreneurship curriculum developed by the University of Texas in Austin, which partnered with Trisakti University in Jakarta, Indonesia, and the U.S. embassy to help run an entrepreneurship course and competition, are examples of such competitions. Seven students from “iLearn: Entrepreneurship” were selected as finalists to pitch their business plans to a panel of Indonesian business leaders and embassy representatives. The winning business plan, an ecotourism concept, earned $1,000 in seed money. What research goes into a winning business plan? (Credit: University of Essex /flickr/ Attribution 2.0 Generic (CC BY 2.0))

The business plan also serves as the initial operating plan for the business. Writing a good business plan takes time. However, many businesspeople neglect this critical planning tool in their eagerness to begin doing business, getting caught up in day-to-day operations instead.

The key features of a business plan are a general description of the company, the qualifications of the owner(s), a description of the products or services, an analysis of the market (demand, customers, competition), sales and distribution channels, and a financial plan. The sections should work together to demonstrate why the business will be successful while focusing on the uniqueness of the business and why it will attract customers. Table 4.8 describes the essential elements of a business plan.

A common use of a business plan is to persuade lenders and investors to finance the venture. The detailed information in the plan helps them assess whether to invest. Even though a business plan may take months to write, it must capture potential investors’ interest within minutes. For that reason, the basic business plan should be written with a particular reader in mind. Then you can fine-tune and tailor it to fit the investment goals of the investor(s) you plan to approach.

Table 4.8

Key Elements of a Business Plan
The executive summary provides an overview of the total business plan. Written after the other sections are completed, it highlights significant points and, ideally, creates enough excitement to motivate the reader to continue reading.
The vision and mission statement concisely describe the intended strategy and business philosophy for making the vision happen. Company values can also be included in this section.
The company overview explains the type of company, such as manufacturing, retail, or service; provides background information on the company if it already exists; and describes the proposed form of organization—sole proprietorship, partnership, or corporation. This section should include company name and location, company objectives, nature and primary product or service of the business, current status (start-up, buyout, or expansion), history (if applicable), and legal form of organization.
The product and/or service plan describes the product and/or service, points out any unique features, and explains why people will buy the product or service. This section should offer the following descriptions: product and/or service; features and benefits of the product or service that provide a competitive advantage; available legal protection—patents, copyrights, and trademarks.
The marketing plan shows who the firm's customers will be and what type of competition it will face; outlines the marketing strategy and specifies the firm's competitive edge; and describes the business's strengths, weaknesses, opportunities, and any potential threats it faces. This section should offer the following descriptions: analysis of the target market and profile of the target customer; methods of identifying, attracting, and retaining customers; a concise description of the value proposition; selling approach, type of sales force, and distribution channels; types of marketing and sales promotions, advertising, and projected marketing budget; product and/or service pricing strategy; and credit and pricing policies.
The management plan identifies the key players—active investors, management team, board members, and advisors— citing their experience and competence. This section should offer the following descriptions: management team, outside investors and/or directors and their qualifications, outside resource people and their qualifications, and plans for recruiting and training employees.
The operating plan explains the type of manufacturing or operating system to be used and describes the facilities, labor, raw materials, and product-processing requirements. This section should offer the following descriptions: operating or manufacturing methods, operating facilities (location, space, and equipment), quality-control methods, procedures to control inventory and operations, sources of supply, and purchasing procedures.
The financial plan specifies financial needs and contemplated sources of financing, as well as presents projections of revenues, costs, and profits. This section should offer the following descriptions: historical financial statements for the last 3–5 years or as available; pro forma financial statements for 3–5 years, including income statements, balance sheets, cash flow statements, and cash budgets (monthly for the first year and quarterly for the second year); financial assumptions; breakeven analysis of profits and cash flows; and planned sources of financing.
The appendix of supporting documents provides materials supplementary to the plan. This section should offer the following descriptions: management team biographies; the company's values; information about the company culture (if it's unique and contributes to employee retention); and any other important data that support the information in the business plan, such as detailed competitive analysis, customer testimonials, and research summaries.

Table 4.8 Sources: "7 Elements of a Business Plan," quickbooks.intuit.com, accessed February 2, 2018; David Ciccarelli, "Write a Winning Business Plan with These 8 Key Elements," Entrepreneur, https://www.entrepreneur.com, accessed February 2, 2018; Patrick Hull, "10 Essential Business Plan Components," Forbes, https://www.forbes.com, accessed February 2, 2018; Justin G. Longenecker, J. William Petty, Leslie E. Palich, and Frank Hoy, Small Business Management: Launching & Growing Entrepreneurial Ventures,18th edition (Mason, OH: Cengage, 2017); Monique Reece, Real-Time Marketing for Business Growth: How to Use Social Media, Measure Marketing, and Create a Culture of Execution(Upper Saddle River, NJ: FT Press/Pearson, 2010).

But don't think you can set aside your business plan once you obtain financing and begin operating your company. Entrepreneurs who think their business plan is only for raising money make a big mistake. Business plans must be dynamic documents, reviewed, and updated regularly—monthly, quarterly, or annually, depending on how the business progresses and the particular industry changes.

Owners should adjust their sales and profit projections up or down as they analyze their markets and operating results. Reviewing your plan constantly will help you identify strengths and weaknesses in your marketing and management strategies and help you evaluate possible opportunities for expansion in light of your original mission and goals, current market trends, and business results. The Small Business Administration (SBA) offers sample business plans and online guidance for business plan preparation under the "Business Guide" tab at https://www.sba.gov.

Financing the Business

Once the business plan is complete, the next step is to obtain financing to set up your company. The funding required depends on the type of business and the entrepreneur's own investment. Businesses started by lifestyle entrepreneurs require less financing than growth-oriented businesses, and manufacturing and high-tech companies generally require a large initial investment.

Who provides start-up funding for small companies? Like Miho Inagi and her Tokyo bagel shop, 94 percent of business owners raise start-up funds from personal accounts, family, and friends. Personal assets and money from family and friends are important for new firms, whereas funding from financial institutions may become more important as companies grow. Three-quarters of *Inc. 500* companies have been funded on $100,000 or less (McFarland, 2016).

The two forms of business financing are:

- **Debt**: borrowed funds that must be repaid with interest over a stated period
- **Equity**: funds raised through the sale of stock (i.e., ownership) in the business

Those who provide equity funds get a share of the business's profits. Because lenders usually limit debt financing to no more than a quarter to a third of the firm's total needs, equity financing often amounts to about 65 to 75% of total start-up financing.



Exhibit 4.5 FUBU started when a young entrepreneur from Hollis, Queens, began making tie-top skullcaps at home with some friends. With funding from a $100,000 mortgage and a later investment from the Samsung Corporation, CEO Daymond John, turned his house into a successful sportswear company. The FUBU brand tops the list for today's fashionistas who don everything from FUBU's classic Fat Albert line to swanky FUBU suits and tuxedos. How do start-ups obtain funding? (Credit: U.S. Embassy Nairobi/ flickr/ Attribution 2.0 Generic (CC BY 2.0)

One way to finance a start-up company is bootstrapping, which is basically funding the operation with your own resources. If the resources needed are unavailable to an individual, other options exist. Two sources of equity financing for young companies are angel investors and venture-capital firms. **Angel investors** are individual investors or groups of experienced investors who provide financing for start-up businesses by investing their own money, often referred to as "seed capital." This gives the investors more flexibility on what they can and will invest in, but because it is their own money, angel investors are usually careful and often invest early in a company's development to see an idea they understand and can have confidence in.

Table 4.9 offers some guidelines on how to attract angel financing.

Table 4.9

Making a Heavenly Deal

You need financing for your start-up business. How do you get angels interested in investing in your business venture?

- Show them something they understand, ideally a business from an industry they've been associated with.
- Know your business details: Information important to potential investors includes annual sales, gross profit, profit margin, and expenses.
- Be able to describe your business—what it does and who it sells to—in less than a minute. Limit PowerPoint presentations to 10 slides.
- Angels can always leave their money in the bank, so an investment must interest them. It should be something they're passionate about. And timing is important—knowing when to reach out to an angel can make a huge difference.
- They need to see management they trust, respect, and like. Present a competent management team with a strong, experienced leader who can explain the business and answer questions from potential investors with specifics.
- Angels prefer something they can bring added value to. Those who invest could be involved with your company for a long time or perhaps take a seat on your board of directors.
- They are more partial to deals that don't require huge sums of money or additional infusions of angel cash.
- Emphasize the likely exits for investors and know who the competition is, why your solution is better, and how you will gain market share with an infusion of cash.

Sources:

Abrams, R. (2001). "What Does It Take to Impress an Angel Investor?" Inc. https://www.inc.com.
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Newlands, M. (2017). "How to Raise an Angel Funding Round," Forbes, https://www.forbes.com.
Zhao, S. (2005). "9 Tips for Winning over Angels," Inc., https://www.inc.com.

Table 4.9

Venture capital is financing from *venture capitalists*, investment firms that specialize in financing small, high-growth companies. Venture capitalists receive an ownership interest and a voice in management in return for their money. They typically invest at a later stage than angel investors. We'll discuss venture capital in greater detail when discussing financing the enterprise.

Buying a Small Business

Another route to small-business ownership is buying an existing business. Although this approach is less risky, many of the same steps for starting a business from scratch apply to buying an existing company. It still requires careful and thorough analysis. The potential buyer must answer several important questions: Why is the owner selling? Does he or she want to retire or move on to a new challenge, or are there problems with the business? Is the business operating at a profit? If not, can this be corrected? On what basis has the owner valued the company, and is it a fair price? What are the owner's plans after selling the company? Will he or she be available to provide assistance through the change of ownership of the business? And depending on the type of business it is, will customers be more loyal to the owner than to the product or service being offered? Customers could leave the firm if the current owner decides to open a similar business. To protect against this, many purchasers include a *non-compete clause* in the contract of sale, which generally means that the owner of the company being sold may not be allowed to compete in the same industry of the acquired business for a specific amount of time.

You should prepare a business plan that thoroughly analyzes all aspects of the business. Get answers to all your questions, and determine, via the business plan, whether the business is sound. Then, you must negotiate the price and other terms of purchase and obtain appropriate financing. This can be a complicated process and may require the use of a consultant or business broker.

Risky Business

Running your own business may not be as easy as it sounds. Despite the many advantages of being your own boss, the risks are great as well. Over a period of five years, nearly 50% percent of small businesses fail, according to the Kauffman Foundation (2024).

Businesses close down for many reasons—and not all are failures. Some businesses that close are financially successful and close for non-financial reasons. But the causes of business failure can be interrelated. For example, low sales and high expenses are often directly related to poor management. Some common causes of business closure are:

- Economic factors—business downturns and high interest rates
- Financial causes—inadequate capital, low cash balances, and high expenses
- Lack of experience—inadequate business knowledge, management experience, and technical expertise
- Personal reasons—the owners may decide to sell the business or move on to other opportunities

Inadequate early planning is often at the core of later business problems. As described earlier, a thorough feasibility analysis, from market assessment to financing, is critical to business success. Yet even with the best plans, business conditions change, and unexpected challenges arise. An entrepreneur may start a company based on a terrific new product only to find that a larger firm with more marketing, financing, and distribution clout introduces a similar item.

The stress of managing a business can also take its toll. The business can consume your whole life. Owners may find themselves in over their heads and unable to cope with the pressures of business operations, from the long hours to being the main decision maker. Even successful businesses have to deal with ongoing challenges. Growing too quickly can cause as many problems as sluggish sales. Growth can strain a company's finances when additional capital is required to fund expanding operations, from hiring additional staff to purchasing more raw materials or equipment. Successful business owners must respond quickly and develop plans to manage growth.

So, how do you know when it is time to quit? "Never give up" may be a good motivational catchphrase, but it is not always good advice for a small-business owner. Yet, some small-business owners keep going no matter what the cost. For example, Ian White's company was trying to market a new kind of city map. After starting his company, White maxed out 11 credit cards and ran up more than $100,000 in debt. He ultimately declared personal bankruptcy and was forced to find a job so that he could pay his bills. Maria Martz didn't realize her small business would become a casualty until she saw her tax return showing her company's losses in black and white—for the second year in a row. It convinced her that enough was enough, and she gave up her gift basket business to become a full-time homemaker. But once the decision is made, it may be tough to stick to. "I got calls from people asking how come I wasn't in business anymore. It was tempting to say I'd make their basket, but I had to tell myself it is finished now" (Blackman, 2005).

? Concept Check

1. How can potential business owners find new business ideas?
2. Why is it important to develop a business plan? What should such a plan include?
3. What financing options do small-business owners have? What risks do they face?

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4.7: Managing a Small Business

Learning Objectives

1. Why does managing a small business present special challenges for the owner?

Managing a small business is quite a challenge. Whether you start a business from scratch or buy an existing one, you must be able to keep it going. The small-business owner must be ready to solve problems as they arise and move quickly if market conditions change.

Managing Change

Learning How to Pivot

Most small business owners either use or at least know of the iconic email service MailChimp, a company that is growing by more than $120 million every year and is on track to bring in $525 million over the coming year. But Ben Chestnut, the CEO and co-founder, says it took MailChimp several years to figure out what it did well.

When Chestnut was laid off from his job at the Cox Media Group in Atlanta, he founded Rocket Science Group, a web design firm. Co-founder Dan Kurzius (who taught himself to code) joined Chestnut, and they began to focus their sales efforts on tech companies. But when the tech bubble burst, they pivoted to selling to airline and travel companies. Then, after 9/11, they needed to change their focus again, this time on the real estate market. However, Chestnut and Kurzius discovered they didn't enjoy sales (and weren't very good at it), nor did they like the bureaucracy of working with large companies. "The only companies we could relate to were small businesses, and they always asked for email marketing."

This insight helped Chestnut to recall a product feature the Rocket Science Group had previously developed for an email greeting card project. So, Chestnut and Kurzius evaluated the marketing software and began to test it with small businesses. "Our day jobs felt like going to these big organizations and pitching to them, and it was miserable," Chestnut says. "But we really loved our nighttime jobs, helping the small businesses use this email marketing app." Their passion, along with market feedback, led to their decision to focus completely on email marketing for small businesses. But it wasn't until almost 2009 that MailChimp found its sweet spot. The founders initially wanted to give away one product that collected subscribers and then charge for another, which was sending emails, but it would have been very difficult to divide the product into two pieces. That's when they landed on the Freemium idea. "Let's just make the whole thing free," said Chestnut.

The idea was that if they made it cheap and easy for small businesses to try MailChimp, their business would grow, and they would be happy to pay for MailChimp services. MailChimp allows customers to send an email for free to 1,999 people simultaneously but charges for emails sent to over 2,000 people and premium features. MailChimp charges a monthly recurring fee starting at $10 for sending more than 12,000 emails a month.

The idea quickly proved to be a huge success. MailChimp went from a few hundred thousand users to 1 million users in a year. The next year, they added another million users.

The MailChimp founders learned a lot of lessons during their 17 years in business. One of their most important lessons is knowing when to change. When you see an opportunity, don't be afraid to pivot and change course, especially if it means focusing on a market that you're passionate about. Listening to market feedback and following their passion earned MailChimp's founders recognition as "2017 Business of the Year" by *Inc. Magazine.*

Critical Thinking Questions

1. What led MailChimp's founders to change its focus on the customers they were selling to?
2. What was MailChimp's "big idea" that changed the business, and why was it so successful?

Sources:

Aspan, A. (2018). "Want Proof That Patience Pays Off? Ask the Founders of This 17-Year-Old $525 Million Email Empire," *Inc.*, https://www.inc.com, Winter 2017/January 2018 issue.

"MailChimp: From Startup to Inc. Magazine's Top Company," *CNBC*, https://www.cnbc.com, December 12, 2017.

Manjoo, F. (2006)."MailChimp and the Un-Silicon Valley Way to Make It as a Start-Up," *The New York Times*, https://www.nytimes.com, October 5, 2016.

A sound business plan is key to keeping the small-business owner in touch with all areas of his or her business. Hiring, training, and managing employees is another important responsibility because the owner's role may change over time. As the company grows, others will make many of the day-to-day decisions while the owner focuses on managing employees and planning for the firm's long-term success. The owner must constantly evaluate company performance and policies in light of changing market and economic conditions and develop new policies as required. He or she must also nurture a continual flow of ideas to keep the business growing. The types of employees needed may change too as the firm grows. For instance, a larger firm may need more managerial talent and technical expertise.

Using Outside Consultants

One way to ease the burden of managing a business is to hire outside consultants. Nearly all small businesses need a reputable certified public accountant (CPA) who can help with financial record keeping, decision-making, and tax planning. An accountant who works closely with the owner to help the business grow is a valuable asset. An attorney who knows about small-business law can provide legal advice and draw up essential contracts and documents. Consultants in areas such as marketing, employee benefits, and insurance can be used on an as-needed basis. Outside directors with business experience are another way for small companies to get advice. Resources such as these free the small-business owner to concentrate on medium- and long-range planning and day-to-day operations.

Some aspects of business can be outsourced or contracted out to specialists. Among the more common departments that use outsourcing are information technology, marketing, customer service, order fulfillment, payroll, and human resources. Hiring an outside company—in many cases another small business—can save money because the purchasing firm buys just the services it needs and makes no investment in expensive technology. Management should review outsourced functions as the business grows because at some point it may be more cost-effective to bring them in-house.

Hiring and Retaining Employees

It is important to identify all the costs of hiring an employee to ensure your business can afford it. Recruiting, help-wanted ads, extra space, and taxes will easily add about 10–15% to their salary, and employee benefits will add even more. Hiring an employee may also mean more work for you in terms of training and management. It's a catch-22: to grow, you need to hire more people, but making the shift from solo worker to boss can be stressful.

Attracting good employees is more difficult for a small firm, which may not be able to match the higher salaries, better benefits, and advancement potential offered by larger firms. Small companies must be creative to attract the right employees and convince applicants to join their firms. Once they hire an employee, small-business owners must prioritize employee satisfaction to retain good people. A company culture that nurtures a comfortable environment for workers, flexible hours, employee benefit programs, opportunities to help make decisions, and a share in profits and ownership are some ways to do this.

Duane Ruh figured out how to build a $1.2 million business in a town with just 650 residents. It's all about treating employees right. The log birdhouse and bird feeder manufacturer, Little Log Co., located in Sargent, Nebraska, boasts employee-friendly policies you read about but rarely see put into practice. Ruh offers his employees a flexible schedule that gives them plenty of time for their personal lives. During a slow period last summer, Ruh cut back on hours rather than lay anyone off. There just aren't many jobs in that part of Nebraska that his employees could go to, so when he received a buyout offer that would have closed his facility but kept him in place with an enviable salary, he turned it down. Ruh also encourages his employees to pursue side or summer jobs if they need to make extra money, assuring them that their Little Log jobs are safe (Prather, 2003).

Going Global with Exporting

Small businesses are increasingly discovering the benefits of looking beyond the United States for market opportunities. The global marketplace represents a huge opportunity for U.S. businesses, both large and small. Many factors, including the desire for increased sales and higher profits, drive small businesses' decision to export. U.S. goods are less expensive for overseas buyers

when the value of the U.S. dollar declines against foreign currencies, creating opportunities for U.S. companies to sell globally. In addition, economic conditions such as a domestic recession, foreign competition within the United States, or new markets opening up in foreign countries may also encourage U.S. companies to export.

Like any major business decision, exporting requires careful planning. Small businesses may hire international-trade consultants or distributors to get started selling overseas. These specialists have the time, knowledge, and resources that most small businesses lack. Export trading companies (ETCs) buy goods at a discount from small businesses and resell them abroad. Export management companies (EMCs) act on a company's behalf. For fees of 5–15 percent of gross sales and multiyear contracts, they handle all aspects of exporting, including finding customers, billing, shipping, and helping the company comply with foreign regulations.

Many online resources are also available to identify potential markets for your goods and services and decipher the complexities involved in preparing to sell in a foreign country. The Small Business Association's Office of International Trade has links to many valuable sites. The Department of Commerce offers services for small businesses that want to sell abroad. Contact the Trade Information Center at 1-800-USA-TRAD(E) (1-800-872-8723), or its Export Center (http://www.export.gov).

? Concept Check

1. How does the small-business owner's role change over time?
2. How does managing a small business contribute to its growth?
3. What are the benefits to small firms of doing business internationally, and what steps can small businesses take to explore their options?

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4.8: The Large Impact of Small Business

Learning Objectives

1. What are the advantages and disadvantages facing owners of small businesses?

An uncertain economy has not stopped people from starting new companies. The National Federation of Independent Businesses reports that 85% of Americans view small businesses as a positive influence on American life. This is not surprising when you consider the many reasons why small businesses continue to thrive in the United States:

- ***Independence and a better lifestyle**:* Large corporations no longer represent job security or offer the fast-track career opportunities they once did. Mid-career employees leave the corporate world—either voluntarily or as a result of downsizing—in search of the new opportunities that self-employment provides. Many new college and business school graduates shun the corporate world altogether to start their own companies or look for work in smaller firms.
- ***Personal satisfaction from work**:* Many small-business owners cite this as one of the primary reasons for starting their companies. They love what they do.
- ***Best route to success**:* Business ownership provides greater advancement opportunities for women and minorities, as discussed later in this chapter. It also offers small-business owners the potential for profit.
- ***Rapidly changing technology**:* Technology advances and decreased costs empower individuals and small companies to compete in industries formerly closed to them.
- ***Major corporate restructuring and downsizing**:* These force many employees to look for other jobs or careers. They may also provide the opportunity to buy a business unit that a company no longer wants.
- ***Outsourcing**:* Because of downsizing, corporations may contract with outside firms for services they used to provide in-house. Outsourcing creates opportunities for smaller companies that offer these specialized goods and services.
- ***Small businesses are resilient**:* They can respond fairly quickly to changing economic conditions by refocusing their operations.

Several cities and regions are regarded as the best locations for start-up businesses and entrepreneurs. Among them are Tulsa, Oklahoma; Tampa, Florida; Atlanta, Georgia; Raleigh, North Carolina; Oklahoma City, Oklahoma; Seattle, Washington; Minneapolis, Minnesota; and Austin, Texas (Badenhausen, 2018).

Why Stay Small?

Owners of small businesses recognize that being small offers special advantages. Greater flexibility and an uncomplicated company structure allow small businesses to react more quickly to changing market forces. Innovative product ideas can be developed and brought to market more quickly, using fewer financial resources and personnel than would be needed in a larger company. And operating more efficiently keeps costs down as well. Small companies can also serve specialized markets that may not be cost-effective for large companies. Another feature is the opportunity to provide a higher level of personal service. Such attention brings many customers back to small businesses such as gourmet restaurants, health clubs, spas, fashion boutiques, and travel agencies.

Steve Niewulis played in baseball's minor leagues before an injury to his rotator cuff cut short his career. Niewulis decided to combine his love of the game with a clever idea that elevated him to the big leagues. The fact that players had trouble keeping their hands dry while batting inspired his big idea: a sweat-busting rosin bag attached to a wristband so that a player could dry the bat handle between pitches. In less than two years, Niewulis's Fort Lauderdale, Florida, company, Tap It! Inc., sold thousands of Just Tap It! wristbands. The product, which retails for $12.95, is used by baseball players, basketball players, tennis players, golfers, and even rock climbers. His secret to success? Find a small distribution network that allows small companies with just one product line to succeed (Debelak, 2006).

On the other hand, being small is not always an asset. The founders may have limited managerial skills or encounter difficulties obtaining adequate financing, which are potential obstacles to growing a company. Complying with federal regulations is also more expensive for small firms. Those with fewer than 20 employees spend about twice as much per employee on compliance than larger firms. In addition, starting and managing a small business requires a major commitment by the owner. Long hours, the need for

owners to do much of the work themselves, and the stress of being personally responsible for the success of the business can take a toll.

But managing your company's growing pains doesn't need to be a one-person job. Four years after he started DrinkWorks (now Whirley-DrinkWorks), a company that makes custom drinking cups, Richard Humphrey was logging 100-hour weeks. "I was concerned that if I wasn't there every minute, the company would fall apart." Humphrey got sick, lost weight, and had his engagement fall apart. When forced by a family emergency to leave the company in the hands of his five employees, Humphrey was amazed at how well they managed in his absence. "They stepped up to the plate, and it worked out," he says. "After that, the whole company balanced out" (McFarland, 2016).



? Concept Check

1. Why are small businesses becoming so popular?
2. Discuss the major advantages and disadvantages of small businesses.

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4.9: The Small Business Administration

Learning Objectives

1. How does the Small Business Administration help small businesses?

Many small-business owners turn to the **Small Business Administration (SBA)** for assistance. The SBA's mission is to speak on behalf of small businesses, and through its national network of local offices, it helps people start and manage small businesses, advises them in finance and management, and helps them win federal contracts. Its toll-free number—1-800-U-ASK-SBA (1-800-827-5722)—provides general information, and its website at http://www.sba.gov offers details on all its programs (Small Business Administration, 2024)

Perspective small business owners can seek out loan information by visiting SBA's website: https://www.sba.gov/funding-programs/loans

Since COVID-19, many changes have occurred with lending programs. Seeking out quality and current guidance from the SBA's website is necessary to understand the updates.



Financial Assistance Programs

The SBA offers financial assistance to qualified small businesses that cannot obtain financing on reasonable terms through normal lending channels. This assistance takes the form of guarantees on loans made by private lenders. (The SBA no longer provides direct loans.) These loans can be used for most business purposes, including purchasing real estate, equipment, and materials. The SBA has been responsible for significant small-business financing in the United States. In the fiscal year ending on September 30, 2017, the SBA backed more than $25 billion in loans to almost 68,000 small businesses, including about $9 billion to minority-owned firms and $7.5 billion in loans to women-owned businesses. It also provided more than $1.7 billion in home and business disaster loans (Small Business Administration, 2017).

Other SBA programs include the New Markets Venture Capital Program, which promotes economic development and job opportunities in low-income geographic areas, while other programs offer export financing and assistance to firms that suffer economic harm after natural or other disasters.

Over 300 SBA-licensed **Small Business Investment Companies (SBICs)** provide about $6 billion yearly in long-term financing for small businesses. The SBA's website suggests seeking angel investors and using SBA-guaranteed loans to fund the start-up. These privately owned and managed investment companies hope to earn a substantial return on their investments as the small businesses grow.

SCORE-ing with Management Assistance Programs

The SBA also provides a wide range of management advice. Its Business Development Library has publications on most business topics. Its “Starting Out” series offers brochures on how to start a wide variety of businesses—from ice cream stores to fish farms.

Business development officers at the Office of Business Development and local Small Business Development Centers counsel thousands of small-business owners each year, offering advice, training, and educational programs. The SBA also offers free management consulting through two volunteer groups: the Service Corps of Retired Executives (SCORE) and the Active Corps of Executives (ACE). Executives in these programs use their own business backgrounds to help small-business owners. SCORE has expanded its outreach into new markets by offering email counseling through its website (http://www.score.org). The SBA also offers free online resources and courses for small-business owners and aspiring entrepreneurs on the SBA Learning Platform, which is located here: https://www.sba.gov/sba-learning-platform.

Assistance for Women and Minorities

The SBA is committed to helping women and minorities increase their business participation. It offers a minority small-business program, microloans, and the publication of Spanish-language informational materials. It has increased its responsiveness to small businesses by giving regional offices more decision authority and creating high-tech tools for grants, loan transactions, and eligibility reviews.

The SBA offers special programs and support services for socially and economically disadvantaged persons, including women, Native Americans, and Hispanics, through its Minority Business Development Agency. It also makes a special effort to help veterans go into business for themselves.

Resources for women-owned businesses from the SBA can be found here: https://www.sba.gov/business-guide/grow-your-business/women-owned-businesses.

Resources for minority-owned businesses from the SBA can be found here: https://www.sba.gov/business-guide/grow-your-business/minority-owned-businesses.

? Concept Check

1. What is the Small Business Administration (SBA)?
2. Describe the financial and management assistance programs offered by the SBA.

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4.10: Trends in Entrepreneurship and Small-Business Ownership

Learning Objectives

1. What trends are shaping entrepreneurship and small-business ownership?

Entrepreneurship has changed since the heady days of the late 1990s, when starting a dotcom while still in college seemed a quick route to riches and stock options. Much entrepreneurial opportunity comes from major changes in demographics, society, and technology, and there is currently a confluence of all three. A major demographic group is moving into a significantly different stage in life, and minorities are increasing their business ownership in remarkable numbers. We have created a society where we expect to have our problems taken care of, and the technological revolution stands ready with already-developed solutions. Evolving social and demographic trends, combined with the challenge of operating in a fast-paced technology-dominated business climate, are changing the face of entrepreneurship and small-business ownership.

Into the Future: Start-ups Drive the Economy

Did new business ventures drive the economic recovery from the 2001–2002 and 2007–2009 to recessions, and are they continuing to make significant contributions to the U.S. economy? The economists who review Department of Labor employment surveys and SBA statistics think so. “Small business drives the American economy,” says Dr. Chad Moutray, former chief economist for the SBA’s Office of Advocacy. “Main Street provides the jobs and spurs our economic growth. American entrepreneurs are creative and productive.” Numbers alone do not tell the whole story, however. Are these newly self-employed workers profiting from their ventures, or are they just biding their time during a period of unemployment?

U.S. small businesses employed 57.9 million people in 2016, representing nearly 48% of the workforce. The number of net new jobs added to the economy was 1.4 million (Small Business Administration, 2016).

The highest growth rate comes from women-owned firms and continues to rise at rates higher than the national average—and with even stronger growth rates since the recession. In 2016, an estimated 11.6 million women-owned businesses employed nearly 9 million people, generating more than $1.7 trillion in revenue (American Express, 2020).

Between 2007 and 2017, women-owned firms increased by 114 percent, compared with a 44% increase among all businesses. This means that growth rates for women-owned businesses are 2.5 times faster than the national average. Employment growth was also stronger than national rates. Women-owned businesses increased 27% over the past 20 years, while overall business employment has increased by 13% since 2007 (American Express, 2020).

These trends show that more workers are striking out on their own and earning money doing it. It has become very clear that encouraging small-business activity leads to continued strong overall economic growth. Please visit the Kauffman Foundation website and the SBA FAQ website for recent statistics.

Changing Demographics Create Entrepreneurial Diversity

The mantra, “60 is the new 40,” describes today’s Baby Boomers who indulge in much less knitting and golf in their retirement years. The AARP predicts that silver-haired entrepreneurs will continue to rise in the coming years. According to a recent study by the Kauffman Foundation, Baby Boomers are twice as likely as Millennials to start a new business. In fact, close to 25% of all new entrepreneurs fall between the ages of 55 and 64 (Strauss, 2017). This has created a ripple effect in the way we work. Boomers have accelerated the growing acceptance of working from home, adding to the millions of U.S. workers already showing up to work in their slippers. In addition, the ongoing corporate brain drain could mean that small businesses can tap into the expertise of seasoned free agents at less-than-corporate prices—and that seniors themselves will become independent consultants to businesses of all sizes (Hanson, 2018).

The growing number of Baby Boomer entrepreneurs has prompted some forward-thinking companies to recognize business opportunities in technology. At one time there was a concern that the aging of the population would create a drag on the economy. Conventional wisdom says that the early parenthood years are the big spending years. As we age, we spend less and, because Boomers are such a big demographic group, this would create a long-term economic decline. Not true, it now appears. The Boomer generation has built sizable wealth and is not afraid to spend it to make their lives more comfortable.

Minorities are also adding to the entrepreneurial mix. As we saw in Exhibit 4.4, minority groups and women are increasing business ownership much faster than the national average, reflecting their confidence in the U.S. economy. These overwhelming increases in minority business ownership paralleled the demand for U.S. Small Business Administration loan products. Loans to minority business owners in fiscal year 2017 set a record—more than $9.5 billion, or 31 percent, of SBA's total loan portfolio (U.S. Small Business Administration, 2017).

The Kauffman Foundation Indicators of Entrepreneurship found that immigrants and Latinos have swelled the growing numbers of self-employed Americans, increasing the diversity of the country's entrepreneurial class. Please visit the Kauffman Foundation website and the SBA FAQ website for recent statistics.



Exhibit 4.6 The popularity of home businesses such as Rodan+Fields, eBay, and other e-commerce sites has given rise to a new kind of entrepreneur: the "mompreneur."Typically ex-corporate professionals, these web-driven women launch home businesses that sell antiques, jewelry, thrift-store fashions, and other items. Aided by digital photography, wireless technology, and friendly postal workers, these savvy moms are among the fastest-growing segments of entrepreneurs building successful online businesses. Why are many professional women leaving the workplace to start entrepreneurial ventures online? (Credit: Amanda nobles/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

How Far Will You Go to Get Rich?

With enough intelligence and determination, people can get rich almost anywhere in the United States. Whether you own chains of dry cleaners in Queens, car dealerships in Chicago, or oil wells in West Texas, fortunes have been made in every state in the Union. There are some places, however, where the chances of creating wealth are much greater than others. That is why people who hope to strike it rich move to places such as Manhattan or Palo Alto. It's not because the cost of living is low or the quality of life as a struggling entrepreneur is fun. Whether starting a software or soft-drink company, entrepreneurs tend to follow the money.

But not all companies follow the herd. Guild Education, founded in 2015 by Rachel Carlson and Brittany Stich at Stanford University, left San Francisco due to the high cost of living that could slow down the company's growth. "We have a lot of women who are executives and department heads here, starting with myself and my co-founder," CEO Rachel Carlson said. "So when we left, we deliberately chose a place where you can have a family" (Kolodny, 2017). Guild Education's mission is to help large employers offer college education and tuition reimbursement as a benefit to the 64 million working-age adults who lack a college degree.

Since moving to Denver, Guild Education has raised another $21 million in venture capital, bringing the total funding to $31.5 million with a company valuation of $125 million (Chuang, 2017). The company headquarters in Denver is next door to a Montessori school and employs 58 employees. "We were joking that we're the polar opposite of Apple," said Carlson. "Remember when the new 'mothership' came out? Every single parent noticed that it had a huge gym but not a day care."

According to PwC's quarterly venture capital study, "MoneyTree Report," the top regions in the United States for venture-backed deals in the third quarter of 2017 were San Francisco ($4.1 billion), New York Metro ($4.2 billion), Silicon Valley (Bay Area $2.2 billion), and New England ($1.8 billion) (PwC/CB Insights, 2018).

In 2017, equity financing in U.S. start-ups rose for the third straight quarter, reaching $19 billion, according to the PwC/CB Insights "MoneyTree Report Q3 2017." "Financing was boosted by a large number of mega rounds," says Tom Ciccolella, Partner, U.S. Ventures Leader at PwC (PwC/CB Insights, 2018). Twenty-six mega-rounds of $100 million in companies such as WeWork,

23andMe, Fanatics, and NAUTO contributed to the strong activity levels in the first three quarters of 2017. The top five U.S. industry sectors with the most deals and funding were Internet, Healthcare, Mobile and Telecommunications, Software (Non-Internet/Mobile), and Consumer Products.

? Concept Check

1. What significant trends are occurring in the small-business arena?
2. How is entrepreneurial diversity impacting small businesses and the economy?
3. How do ethics impact decision-making with small-business owners?

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4.11: Summary

Key Terms

Angel investors

Individual investors or groups of experienced investors who provide financing for start-up businesses by investing their own funds.

Business plan

A formal written statement that describes in detail the idea for a new business and how it will be carried out; includes a general description of the company, the qualifications of the owner(s), a description of the product or service, an analysis of the market, and a financial plan.

Debt

A form of business financing consisting of borrowed funds that must be repaid with interest over a stated period.

Entrepreneurs

People with vision, drive, and creativity who are willing to risk starting and managing a business to make a profit or greatly changing the scope and direction of an existing firm.

Equity

A form of business financing consisting of funds raised through the sale of stock (i.e., ownership) in a business.

Intrapreneurs

Entrepreneurs who apply their creativity, vision, and risk-taking within a large corporation rather than starting a company of their own.

Small business

A business with under 500 employees that is independently managed, is owned by an individual or a small group of investors, is based locally, and is not a dominant company in its industry.

Small Business Administration (SBA)

A government agency that speaks on behalf of small businesses; specifically, it helps people start and manage small businesses, advises them in finance and management, and helps them win federal contracts.

Small Business Investment Company (SBIC)

Privately owned and managed investment companies licensed by the Small Business Administration and provide long-term financing for small businesses.

Venture Capital

Financing obtained from venture capitalists, investment firms that specialize in financing small, high-growth companies and receive an ownership interest and a voice in management in return for their money.

Summary of Learning Outcomes

4.2 Entrepreneurship

1. Why do people become entrepreneurs, and what are the different types of entrepreneurs?

Entrepreneurs are innovators who take the risk of starting and managing a business to make a profit. Most want to develop a company that will grow into a major corporation. People become entrepreneurs for four main reasons: the opportunity for profit,

independence, personal satisfaction, and lifestyle. Classic entrepreneurs may be micropreneurs, who plan to keep their businesses small, or growth-oriented entrepreneurs. Multipreneurs start multiple companies, whereas intrapreneurs work within large corporations.

4.3 Characteristics of Successful Entrepreneurs

2. What characteristics do successful entrepreneurs share?

Successful entrepreneurs are ambitious, independent, self-confident, creative, energetic, passionate, and committed. They have a high need for achievement and a willingness to take moderate risks. Good managerial, interpersonal, and communication skills, as well as technical knowledge, are important for entrepreneurial success.

4.4 Small Business

3. How do small businesses contribute to the U.S. economy?

Small businesses play an important role in the economy. They account for over 99% of all employer firms and produce about half of U.S. economic output. Most new private-sector jobs created in the United States over the past decade were in small firms. The Small Business Administration defines a small business as independently owned and operated, with a local base of operations, and not dominant in its field. It also defines small business by size, according to its industry. Small businesses are found in every field, but they dominate the service, construction, wholesale, and retail categories.

4.5 Start Your Own Business

4. What are the first steps to take if you are starting your own business?

After finding an idea that satisfies a market need, the small-business owner should choose a form of business organization. Preparing a formal business plan helps the business owner analyze the feasibility of his or her idea. The written plan describes in detail the idea for the business and how it will be implemented and operated. The plan also helps the owner obtain both debt and equity financing for the new business.

4.6 Managing a Small Business

5. Why does managing a small business present special challenges for the owner?

At first, small-business owners are involved in all aspects of the firm’s operations. Hiring and retaining key employees and using outside consultants wisely can free up an owner’s time to focus on planning, strategizing, and monitoring market conditions, in addition to overseeing day-to-day operations. Expanding into global markets can be a profitable growth strategy for a small business.

4.7 The Large Impact of Small Business

6. What are the advantages and disadvantages facing owners of small businesses?

Small businesses can be efficiently operated because of their streamlined staffing and structure. They have the flexibility to respond to changing market conditions. Small firms can serve specialized markets more profitably than large firms, and they provide a higher level of personal service. Disadvantages include limited managerial skill, difficulty in raising capital needed for start-up or expansion, the burden of complying with increasing levels of government regulation, and the major personal commitment required of the owner.

4.8 The Small Business Administration

7. How does the Small Business Administration help small businesses?

The Small Business Administration is the main federal agency serving small businesses. It provides guarantees of private-lender loans for small businesses. The SBA also offers a wide range of management assistance services, including courses, publications, and consulting. It has special programs for women, minorities, and veterans.

4.9 Trends in Entrepreneurship and Small-Business Ownership

8. What trends are shaping entrepreneurship and small-business ownership?

Changes in demographics, society, and technology are shaping the future of entrepreneurship and small business in America. More than ever, opportunities exist for entrepreneurs of all ages and backgrounds. The number of women and minority business owners continues to rise, and older entrepreneurs are changing the small-business landscape. Catering to the needs of an older population and a surge in web-based companies fuel continuous technology growth. Entrepreneurs typically follow the money and set up shop in places where venture capital money is easily available.

? Chapter Review Questions

1. What are the differences between classic entrepreneurs, multipreneurs, and intrapreneurs?
2. What differentiates an entrepreneur from a small-business owner?
3. What are some major factors that motivate entrepreneurs to start businesses?
4. How can potential business owners find new business ideas?
5. Why is it important to develop a business plan? What should such a plan include?
6. What financing options do small-business owners have? What risks do they face?
7. How do the small-business owner's and entrepreneur's roles change over time?
8. What are the benefits to small firms of doing business internationally, and what steps can small businesses take to explore their options?
9. Describe the financial and management assistance programs offered by the SBA.
10. What significant trends are occurring in the small-business arena?
11. How is entrepreneurial diversity impacting small businesses and the economy?
12. How do ethics impact decision-making with small-business owners?

Management Skills Application Exercises

1. After working in software development with a major food company for 12 years, you are becoming impatient with corporate "red tape" (regulations and routines). You have an idea for a new snack product for nutrition-conscious consumers and are thinking of starting your own company. What entrepreneurial characteristics do you need to succeed? What other factors should you consider before quitting your job? Working with a partner, choose one to be the entrepreneurial employee and one to play the role of his current boss. Develop notes for a script. The employee will focus on why this is a good idea—reasons he will succeed—and the employer will play devil's advocate to convince him that staying on at the large company is a better idea. Then, switch roles and repeat the discussion.
2. What does it really take to become an entrepreneur? Find out by interviewing a local entrepreneur or researching an entrepreneur you've read about in this chapter or in the business press. Get answers to the following questions, as well as any others you'd like to ask:
    - How did you research the feasibility of your idea?
    - How did you develop your vision for the company?
    - How long did it take you to prepare your business plan?
    - Where did you obtain financing for the company?
    - Where did you learn the business skills you needed to run and grow the company?
    - What are the most important entrepreneurial characteristics that helped you succeed?
    - What were the biggest challenges you had to overcome?
    - What are the most important lessons you learned by starting this company?
    - What advice do you have for would-be entrepreneurs?

3. Your class decides to participate in a local business plan competition. Divide the class into small groups, and choose one of the following ideas:
    - A new computer game based on the stock market
    - A company with an innovative design for a skateboard

- Travel services for college and high school students

Prepare a detailed outline for the business plan, including the objectives for the business and the types of information you would need to develop product, marketing, and financing strategies. Each group will then present its outline for the class to critique.

Managerial Decision Exercises

1. A small catering business in your city is for sale for $250,000. The company specializes in business luncheons and small social events. The owner has been running the business for four years from her home but is expecting her first child and wants to sell. You will need outside investors to help you purchase the business. Develop questions to ask the owner about the business and its prospects, as well as a list of documents you want to see. What other types of information would you need before deciding to buy this company? Summarize your findings in a memo to a potential investor explaining the business's appeal for you and how you plan to investigate the feasibility of the purchase.
2. As the owner of a small factory that makes plastic sheeting, you are constantly seeking ways to increase profits. As the new year begins, one of your goals is to find additional funds to offer annual productivity and/or merit bonuses to your loyal, hardworking employees. Then, a letter from a large national manufacturer of shower curtains seems to provide an answer. As part of a new “supplier diversity” program, the manufacturer offers substantial purchase contracts to minority-owned suppliers. Even though the letter clearly states that the business must be minority owned to qualify for the program, you convince yourself to apply for it because all of your employees are Latino. You justify your decision by deciding they will benefit from the increased revenue a larger contract will bring, some of which you plan to pass on to them in the form of bonuses later in the year. Using a web search tool, locate articles about this topic and then write responses to the following question. Be sure to support your arguments and cite your sources.

    a. Is it wrong for this business owner to apply for this program even though it will end up benefiting his employees as well as his business?

Critical Thinking Case

Fostering Entrepreneurship in Unlikely Places

Vic Ahmed is no stranger to business start-ups; he’s been involved in at least 15 or 20. But his latest venture is a start-up … for start-ups. Ahmed founded Innovation Pavilion, a business incubator in Centennial, Colorado (Denver’s Tech Center), in 2011. A typical business incubator provides start-up companies with workspace, mentoring, training, and sometimes a path to funding, but Innovation Pavilion goes further.

Innovation Pavilion (IP) is an 80,000-square-foot “entrepreneurial ecosystem,” housing dozens of start-ups and renting out desks, office space, and event space. But it also hosts meet-ups, educational workshops, and a Toastmasters group designed specifically for entrepreneurs. It contains a maker space (a workspace providing shared tools and manufacturing equipment for prototyping products) and encourages the growth of niche entrepreneurial communities based on specific industries. For example, IP has a space for IoT (the Internet of Things), one for health care, and another for aerospace. These communities bring together people in an industry to learn from and collaborate one another.

While IP has a traditional incubator program, with companies housed within the IP campus, it has a semi-virtual hyper growth accelerator program for more mature firms, too, which is open to companies around the country. It also seeks out educational partnerships, working with the Highland’s Ranch STEM program, for instance, and has its own educational spin-off, Xuno Innovative Learning, designed to help companies train their staff and find new employees with the skills they need. IP operates its own streaming TV service, filming educational events and interviews with entrepreneurs.

Innovation Pavilion has national expansion plans—and several signed agreements with specific cities—targeting not the giant metropolitan areas but also second tier and “ring” cities across the country, such as Joliet, Illinois, and Olathe, Kansas, smaller cities that don’t get the attention of the larger cities yet have plenty of educated and creative people.

IP is in discussions with 20 cities around the nation to build 200,000-square-foot campuses providing incubator services, office space, makerspace, education and training, outreach to young entrepreneurs, conference centers, retail space, and even housing. Entrepreneurs will be able to live and work in a space with everything they need, providing a complete entrepreneurial ecosystem in smaller cities across the nation.

Steve Case, the co-founder of America Online (AOL), shares Vic Ahmed's vision for entrepreneurship in mid-America. His "Rise of the Rest" bus tour has traveled 8,000 miles over the last three years, investing in local start-ups in 33 cities across the country. Case hosts a pitch competition with the best start-ups in each city, and one lucky winner receives a $100,000 investment from Case.

Media attention has focused on the entrepreneurial engines of America's coastal cities, but Ahmed and Case have a more expansive entrepreneurial vision, in which smaller cities throughout the nation rise alongside larger, start-up hot spots.

Critical Thinking Questions

1. What characteristics made Vic Ahmed a successful entrepreneur?
2. How did Ahmed and Steven Case's partnership and shared vision of "Rise of the Rest" serve their business goals?
3. Is focusing on smaller cities, rather than areas like Silicon Valley, a good strategy, and why?

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CHAPTER OVERVIEW

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5.1: Biblical Insight



Applying the Bible to Business

In this chapter, we will learn the significance of ethics in business. In applying biblical insight, Proverbs 10:9 highlights the importance of walking with integrity: “Whoever walks in integrity walks securely, but whoever takes crooked paths will be found out.” Ethical leadership starts with demonstrating ethical behaviors within and outside a business setting. Research supports that ethical leadership is associated with positive employee outcomes, including employee ethical behavior, commitment, job satisfaction, self-efficacy, job engagement, and organizational identification (Bedi et al., 2016).

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5.2: Introduction

Learning Objectives

After reading this chapter, you should be able to answer these questions:

- What are ethics and business ethics?
- What are the types of values that motivate ethics at the individual level?
- What major ethical principles can guide individuals and organizations?
- Why is ethical leadership important in organizations?
- What differences are there between values-based ethics and compliance in organizations?
- What purpose can CSR (corporate social responsibility) offer organizations and society?
- What ethical issues do organizations and individuals encounter in the global environment?
- What future near-term forecasts will affect the ethical and corporate conduct of organizations?

Exploring Managerial Careers

Playing with a Purpose at Hasbro

Hasbro is a global play and entertainment company that takes corporate social responsibility (CSR) very seriously. Founded nearly a century ago in Rhode Island, Hasbro integrates its CSR efforts throughout the organization with the goal of helping to make the world a better place for children of all ages.

In 2017, the company achieved the number one spot in the "100 Best Corporate Citizens" rankings, published annually by *Corporate Responsibility* magazine. Hasbro is no stranger to this achievement; over the past five years, Hasbro has consistently been in the top five spots on this prestigious list—and that is no accident.

With more than 5,000 employees, Hasbro relies heavily on its strategic brand blueprint to guide its efforts in CSR, innovation, philanthropy, and product development. With a business portfolio that includes such well-known brands as Nerf, Play-Doh, Transformers, Monopoly, and The Game of Life, the company focuses its CSR efforts on four key areas: product safety, environmental sustainability, human rights and ethical sourcing, and community.

According to the company, product safety is its highest priority. Hasbro uses a five-step quality assurance process that starts with design and then moves to engineering, manufacturing, and packaging. Another key part of product safety at Hasbro is incorporating continuous feedback from both consumers and retailers and insisting that these high standards and quality processes apply to all third-party factories worldwide that manufacture its products.

Hasbro is also committed to finding new ways to reduce its environmental footprint. Over the past several years, the company has reduced energy consumption, cut greenhouse gas emissions, and reduced water consumption and waste production in its production facilities. In addition, Hasbro has totally eliminated the use of wire ties in all of its product packaging, saving more than 34,000 miles of wire tires—more than enough to wrap around the earth's circumference.

Human rights and ethical sourcing remain key ingredients of Hasbro's CSR success. Treating people fairly is a core company value, as well as working diligently to make great strides in diversity and inclusion at all levels of the organization. Company personnel work closely with third-party factories to ensure that the human rights of all workers in the Hasbro global supply chain are recognized and upheld.

Philanthropy, corporate giving, and employee volunteering are key components of the Hasbro community. Through its various charitable programs, Hasbro made close to $15 million in financial contributions and product donations in 2016, which reached close to an estimated 4 million children around the globe. Several years ago, the company started an annual Global Day of Joy as a way of engaging its employees worldwide in community service. In a recent year, more than 93 percent of Hasbro's employees participated in service projects in more than 40 countries.

Hasbro is in the business of storytelling, and its CSR efforts tell the story of an ethical, responsible organization whose mission is to "create the world's best play experiences." Its ability to be accountable for its actions and to help make the world a better place one experience at a time continues to make it a highly successful company.

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This chapter will examine the role of ethics and how it affects organizations. Ethics is examined at the individual level, the organizational level, and also examines the role of ethics and leadership. Corporate social responsibility and how it is different than compliance will also be examined. Finally, ethics around the globe and in different cultures and the emerging issues regarding corporate social responsibility and ethics will be discussed.

Case Study: Simon Sinek 5.2.1

This is an incredible video on how to become an amazing leader with practical examples that can be implemented in your life. Simon Sinek is a British-American author and inspirational speaker who can guide all of us on how to be a great leader.





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5.3: Ethics and Business Ethics Defined

Learning Objectives

1. Understand what ethics and business ethics are

Ethics essentially involves how we act, live, lead our lives, and treat others. Our choices, decision-making processes, moral principles, and values governing our behaviors regarding right and wrong are also part of ethics (Hartman et al., 2018; Weiss, 2014).

Normative ethics refers to the field of ethics concerned with asking how we *should* and *ought* to live and act. **Business ethics** is applied ethics that focuses on real-world situations and the context and environment in which transactions occur—How should we apply our values to the way we conduct business?

Ethics and business ethics continue to gain influence in corporations, universities, and colleges nationally and internationally. No longer considered a luxury but a necessity, business ethics has awakened a need in the public consciousness due to crises in many areas. For example, the 2008 subprime lending crisis—the economic effects of which persist—revealed widespread corruption of large investment banks and lending institutions internationally. Unsupported mortgages were fraudulently offered with no legitimate financial backing. Some large financial institutions, such as Lehman Brothers Holdings, Inc., went bankrupt; millions of mortgage holders lost their homes. The estimated cost of that crisis to the global economy is over $22 trillion U.S. dollars (Melendez, 2013).

In the early 2000s, CEOs and top-level leaders from notable corporations such as Enron, Tyco, WorldCom, and others were caught committing outrageously greedy and fraudulent crimes of white-collar theft from their organizations and shareholders. The now classic film *The Smartest Guys in the Room* depict how Enron's leaders during that time, Kenneth Lay (now deceased), Jeff Skilling (still serving prison time), and Andrew Fastow (released from prison in 2011), deceived employees, Wall Street, and shareholders. Enron's crisis took an estimated $67 billion of shareholder wealth from the U.S. economy (Flanigan, 2002). These criminal activities ushered in national laws such as the Sarbanes-Oxley Act, which we discuss below.

While these recent historical crises illustrate the continuing relevance and importance of business ethics, ethical issues are not only concerned with financial and economically motivated crimes and misbehaviors. Fast forward to the rise of artificial intelligence (AI), which also calls attention to the relevance and need for ethics in scientific institutions, businesses, and governments. The public needs to be informed of potential and actual harmful consequences—as well as all the recognizable benefits—of these technologies that are in large part driven by algorithms ("a sequence of instructions telling a computer what to do") (Auerbach, 2015). Intentional and unintentional misuses of such designs embedded in artificially intelligent technologies can negatively and harmfully affect individual lives as well as entire societies. For example, studies show that significant numbers of marginalized members of society are often discriminated against by institutions using faulty algorithms to qualify customers for mortgages and to predict who is at risk of being incarcerated. Often, racial and low-income minorities are discriminated against by such technology designs (Angwin et al., 2016).

At a societal level, another now classic film, *The Minority Report*, illustrates how misuses of technology can threaten individual rights, privacy, free will, and choice. While this may sound like science fiction, scientific and business luminaries such as Elon Musk, Stephen Hawking, Bill Gates, and others have openly declared that we as a society must be cautious, ethically aware, and active in fending off the ill effects of the control and dominant influences of certain AI algorithms in our lives. Scientific and ethical practices in corporate social responsibility (CSR) are one way that ethicists, business leaders, and consumers can support moral self-regulation of technologies. Some scientific and technological firms have adopted ethics boards to help safeguard against harmful social uses of AI technologies (Hern, 2018). The European Union (EU) has produced policy studies that are forerunners of laws to safeguard against potentially harmful uses of robotics (Nevejans, 2016).

Another timely ethical issue is climate change and the environment. Lack of sustainable environmental practices that curb air pollution and destructive uses of land, water, and natural resources have, according to a large community of reputable scientists, threatened Earth's—and our neighborhoods'—atmosphere (Ripple et al., 2017). Scientific studies and United Nations reports affirm that changes to the earth's atmosphere, melting glaciers, and rising seas are occurring at accelerated rates. For example, "California's coastline could rise up to 10 feet by 2100, about 30 to 40 times faster than sea-level rise experienced over the last

century" (Chiu, 2017). While universities, businesses, and local community groups rally for legal actions to curtail and reverse environmental polluters, current political executive orders push against such regulations designed to protect against further erosion of the physical environment (Friedman, 2018). The point here is that these issues described above are not only technological, economic, and political in nature, but also moral and ethical, as the public's health, welfare, and safety are at risk.

Relevant ethical questions can be asked to prevent a crisis: Who is responsible for preventing and addressing what happens to individuals, the public, our institutions, and government, and who is responsible for preventing such crises and harmful effects from occurring and reoccurring? At whose and what costs? Whose responsibility is it to protect and preserve the common good of societies? What ethical and moral principles should and can motivate individuals, groups, and society members to act to change course?

Universities and colleges are taking notice. Business ethics and corporate social responsibility courses and offerings are becoming increasingly important. The accrediting national body of business schools, AACSB (Association to Advance Collegiate Schools of Business), reported that "[i]n their curricula, research, and outreach, business schools must be advocates for the human dimension of business, with attention to ethics, diversity, and personal well-being" (AACSB, 2016). In addition, NGOs (nongovernmental organizations), emergent groups internationally representing the public's interests and the common good, and political action movements are beginning again to give voice to injustices and potentially dangerous ethical as well as fiscal (income inequality), health (the environment), and discriminatory (racism and stereotyping large segments of the society) problems that require **stakeholder** as well as stockholder actions.

In this chapter, we begin by presenting an overview of the dimensions of business ethics at the individual, professional, and leadership levels, followed by the organizational, societal, and global levels.

? Concept Check

1. What individual and organizational ethical issues can we expect to occur?
2. What are some signs of unethical activities you might notice individually and organizationally?

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5.4: Dimensions of Ethics- The Individual Level

Learning Objectives

1. Understand the types of values that affect business ethics at the individual level.

Ethics is personal and unique to each individual. Ethical decision-making also involves other individuals, groups, organizations, and even nations—stakeholders and stockholders—as we later explain. Kenneth Goodpaster and Laura Nash characterized at least three dimensions or levels of ethics that help explain how individual and group values, norms, and behaviors of different stakeholders interact and respond with the aim of bringing orderly, fair, and just relationships with one another in transactions. This approach is illustrated in Exhibit 5.2.

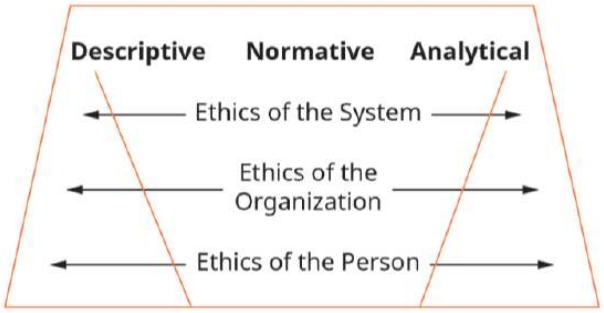


Exhibit 5.2 A Framework for Classifying Levels of Ethical Analysis Source: Adapted from Matthews, John B., Goodpaster, Kenneth E., and Laura L. Nash. (1985). Policies and persons: A casebook in business ethics, 509. New York: McGraw- Hill.

Ethical principles generally are codified into laws and regulations when there is societal consensus about such wrongdoing, such as laws against drunk driving, robbery, and murder. These laws, and sometimes unwritten societal norms and values, shape the local environment within which individuals act and conduct business. At the individual level, a person's values and beliefs are influenced by family, community, peers and friends, local and national culture, society, religious—or other types of—communities, and geographic environment. It is important to look at individual values and ethical principles since these influence an individual's decisions and actions, whether decisions to act or the failure to act against wrongdoing by others. In organizations, an individual's ethical stance may be affected by peers, subordinates, and supervisors, as well as by the organizational culture. Organizational culture often profoundly influences individual choices and can support and encourage ethical actions or promote unethical and socially irresponsible behavior.

Ethics and Values: Terminal and Instrumental Values

Of the values that make up an organization's culture and an individual's motivations, ethical values are now considered among the most important. For instance, when Google took its company public in 2004, its prospectus included an unusual corporate goal: "Don't be evil." That can be a challenge when you're a multibillion-dollar corporation operating around the world, with investors expecting you to produce a profit. Google's operations in the United States and overseas have generated controversy and debate about how well it achieves its stated goal. There is a continuing need to integrate ethical values in corporations. The Ethics & Compliance Initiative found 22 percent of global workers reported pressure to compromise their standards (ECI Connects, 2016). Top corporate managers are under scrutiny from the public as never before, and even small companies are finding a need to put more emphasis on ethics to restore trust among their customers and the community.



Exhibit 5.3 Elon Musk Elon Musk, the CEO of Tesla and SpaceX, pictured here at a TedX conference, is widely admired for his CSR approaches at his companies. Generally, the adoption of electric vehicles, which help reduce pollutants, is viewed as a positive outcome. Musk came under scrutiny regarding comments about having secured financing to take Tesla private that raise compliance issues. (Credit: Steve Jurvetson/ flickr/ Attribution- 2.0 Generic (CC BY-ND 2.0))

Values can be powerful and motivating guides for individual, group, and organizational behavior. At the individual level, however, a recurring issue individuals seem to have with acting ethically is that many people do not consciously know or choose their values. We often act first and think or rationalize later. Secondly, the methods and ways we act to reach our goals and objectives are also not always deliberately chosen. Consequently, we often let the "ends justify the means" and/or "the means justify the ends" in our decisions and actions. **Ethical dilemmas** (i.e., situations and predicaments in which there is not an optimal or desired choice to be made between two options, neither of which solves an issue or delivers an ethical opportunity) often originate and occur from an unawareness of how to sort out and think through potential consequences of our actions or inaction. Becoming aware and conscious of our values is a first step toward being able to act ethically and responsibly to prevent or lessen harm to ourselves or others.

Toward this end, it is helpful to understand values categorized as terminal and instrumental. **Terminal values** are desired goals, objectives, or end states that individuals wish to pursue. **Instrumental values** are preferred means of behavior used to obtain those goals. Examples of terminal values—at a higher level—are freedom, security, pleasure, social recognition, friendship, accomplishment, comfort, adventure, equality, wisdom, and happiness (Rokeach, 1973). Instrumental values include being helpful, honest, courageous, independent, polite, responsible, capable, ambitious, loving, self-contained, and forgiving (Rokeach, 1973).

Identifying and separating terminal from instrumental values in any given situation can assist individuals, groups, and work units in distinguishing between the "ends (goals) from the means (methods to reach the goals)" and vice versa in making decisions, thereby helping us choose more ethical options—or at least less unethical ones—in situations. For example, a sales manager aims to motivate his sales force to achieve individual sales performance levels at a 17% increase over current levels by the end of the calendar quarter. According to the manager, the means of doing so are, "Go for it. Use your imagination and fortitude. Just make sure each of you reaches or exceeds that goal." In this case, the terminal value is high achievement to the point of being overly ambitious to reach an aggressive financial goal. The instrumental value can also be described as aggressive achievement. Both the terminal and instrumental values in this scenario could very likely create undue pressure and even anxiety for some sales force members. The ethical logic underlying this example is to let the "end justify the means." The scenario also raises the question of whether or not individuals in the sales force would choose the values underlying the manager's instruction if each member identified and reflected on those values.

If the end (terminal) value creates undue pressures and is unrealistic and unattainable, then the means (instrumental) value would likely create tension and unethical behavior. In some ways, this example mirrors what recently happened at Wells Fargo & Company—an American international banking and financial services holding company headquartered in San Francisco. High-pressure and unrealistic sales goals were adopted and implemented from the top down in that organization. A result was that sales

force members lied, pressured, and misled loyal customers to buy bogus financial products to meet unrealistic sales goals. Such actions, when discovered, led to and revealed illegal and unethical actions from not only the sales professionals but also officers at the top of that organization. Ultimately, the CEO was pressured to resign, 5,300 employees were fired, and several lawsuits ensued (Comrie, 2017).

The Wells Fargo fiasco yields many lessons. From an individual ethical perspective, one insight is to be aware of the underlying values of organizational and other job- and task-related directives issued. Another is to discover your own values and ethical principles that can guide you in work, study, and personal situations so that someone else's problems may not have to become yours. A helpful assessment for discovering your values is the PVA (Personal Values Assessment) found at https://www.valuescentre.com/pva.

Carucci found that "five ways organizations needlessly provoke good people to make unethical choices" are the following:

1. People feel psychologically unsafe to speak up.
2. Excessive pressure to reach unrealistic performance targets compromises people's choices.
3. When individuals face conflicting goals, they feel a sense of unfairness and compromise their reasoning.
4. Only talking about ethics when there is a scandal.
5. When there is no positive example available, individuals react instead of choosing ethical decisions. Familiarizing yourself with ethical principles in the following section is another way of helping you think through complicated situations to make conscious, values-based decisions to do "the right thing" (Carucci, 2016).

? Concept Check

1. What are terminal and instrumental values?
2. What are ways organizations can employ values to induce people to make ethical choices?

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5.5: Ethical Principles and Responsible Decision-Making

Learning Objectives

1. Understand the major ethical principles that individuals and organizations can use.

Before turning to organizational and systems levels of ethics, we discuss classical ethical principles that are very relevant now and on which decisions can be and are made by individuals, organizations, and other stakeholders who choose principled, responsible ways of acting toward others (Weiss, 2014).

Ethical principles are different from values in that the former are considered rules that are more permanent, universal, and unchanging, whereas values are subjective, even personal, and can change with time. Principles help inform and influence values. Some of the principles presented here date back to Plato, Socrates, and even earlier to ancient religious groups. These principles can be and are used in combination; different principles are also used in different situations (Covey, 2004). The principles that we will cover are utilitarianism, universalism, rights/legal, justice, virtue, common good, and ethical relativism approaches. As you read these, ask yourself which principles characterize and underlie your own values, beliefs, behaviors, and actions. It is helpful to ask and, if not clear, perhaps identify the principles you most often use now, those you aspire to use more, and why. Using one or more of these principles and ethical approaches intentionally can also help you examine choices and options before making a decision or solving an ethical dilemma. Becoming familiar with these principles can help inform your moral decision process and help you observe the principles that a team, workgroup, or organization that you now participate in or will be joining may be using. Using creativity is also important when examining difficult moral decisions when sometimes it may seem that there are two "right" ways to act in a situation or perhaps no way seems morally right, which may also signal that not taking action at that time may be needed unless taking no action produces worse results.

Utilitarianism: A Consequentialist "Ends Justifies Means" Approach

The utilitarianism principle basically holds that an action is morally right if it produces the greatest good for the greatest number of people. An action is morally right if the net benefits over costs are greatest for all affected compared with the net benefits of all other possible choices. This, as with all these principles and approaches, is broad in nature and seemingly rather abstract. At the same time, each one has a logic. When we present the specifics and facts of a situation, this and the other principles begin to make sense, although judgment is still required.

Some limitations of this principle suggest that it does not consider individuals, and there is no agreement on the definition of "good for all concerned." In addition, it is difficult to measure "costs and benefits." This is one of the most widely used principles by corporations, institutions, nations, and individuals, given the limitations that accompany it. This principle generally applies when resources are scarce, there is a conflict in priorities, and no clear choice meets everyone's needs—that is, a zero-sum decision is imminent.

Universalism: A Duty-Based Approach

Universalism is a principle that considers the welfare and risks of all parties when considering policy decisions and outcomes. Also, the needs of individuals involved in a decision are identified, as well as the choices they have and the information they need to protect their welfare. This principle involves taking human beings, their needs, and their values seriously. It is not only a method to make a decision; it is a way of incorporating a humane consideration of and for individuals and groups when deciding a course of action. As some have asked, "What is a human life worth?"

Cooper et al. (2008) wrote, "Universalism is the outward expression of leadership character and is made manifest by respectfulness for others, fairness, cooperativeness, compassion, spiritual respect, and humility." Corporate leaders in the "World's Most Ethical Companies" strive to set a "tone at the top" to exemplify and embody universal principles in their business practices. Howard Schultz, founder of Starbucks; co-founder Jim Sinegal at Costco; Sheryl Sandberg, former chief operating officer of Facebook; and Ursula M. Burns, previous chairperson and CEO of Xerox have demonstrated setting effective ethical tones at the top of organizations.

Limitations here also show that using this principle may not always prove realistic or practical in all situations. In addition, using this principle can require the sacrifice of human life—that is, giving one's life to help or save others—which may seem contrary to the principle. The film *The Post*, based on fact, portrays how the daughter of the founder of the famed newspaper, the *Washington Post*, inherited the role of CEO and was forced to make a decision between publishing a whistle-blower's classified government documents of then top-level generals and officials or keep silent and protect the newspaper. The classified documents contained information proving that generals and other top-level government administrators were lying to the public about the actual status of the United States in the Vietnam War. Those documents revealed that there were doubts the war could be won while thousands of young Americans continued to die fighting. The dilemma for the Washington Post's then-CEO centered on her having to choose between exposing the truth based on freedom of speech—which was the mission and foundation of the newspaper—or staying silent and suppressing the classified information. With the support of and pressure from her editorial staff, she chose to release the classified documents to the public. The Supreme Court upheld her and her staff's decision. A result was enflamed, widespread public protests from American youth and others. President Johnson was pressured to resign, Secretary of State McNamara later apologized, and the war eventually ended with U.S. troops withdrawing. Universalist ethical principles may present difficulties when used in complex situations, but such principles can also save lives, protect the integrity of a nation, and stop meaningless destruction.

Rights: A Moral and Legal Entitlement–Based Approach

This principle is grounded in both legal and moral **rights**. **Legal rights** are entitlements limited to a particular legal system and jurisdiction. In the United States, the Constitution and Declaration of Independence are the basis for citizens' legal rights, for example, the right to life, liberty, and the pursuit of happiness and the right to freedom of speech. **On the other hand, moral** (and human) **rights** are universal and based on norms in every society, such as the right not to be enslaved and the right to work.

To understand individual rights in the workplace, log on to one of the "Best Companies to Work For" annual lists (https://fortune.com/ranking/best-companies/). Profiles of leaders and organizations' policies, practices, perks, diversity, compensation, and other statistics regarding employee welfare and benefits can be reviewed. The "World's Most Ethical Companies" also provides examples of workforce and workplace legal and moral rights. This principle, as with universalism, can always be used when individuals, groups, and nations are involved in decisions that may violate or harm such rights as life, liberty, the pursuit of happiness, and free speech.

Some limitations when using this principle are:

1. It can be used to disguise and manipulate selfish and unjust political interests
2. It is difficult to determine who deserves what when both parties are "right"
3. Individuals can exaggerate certain entitlements at the expense of others

Still, the U.S. Constitution's Bill of Rights, ratified in 1791, was designed as and remains the foundation of freedom and justice to protect the basic rights of all.

Justice: Procedures, Compensation, and Retribution

This principle has at least four major components that are based on the tenets:

1. All individuals should be treated equally
2. Justice is served when all persons have equal opportunities and advantages (through their positions and offices) to society's opportunities and burdens.
3. Fair decision practices, procedures, and agreements among parties should be practiced.
4. Punishment is served to someone who has inflicted harm on another, and compensation is given to those for a past harm or injustice committed against them.

A simple way of summarizing this principle when examining a moral dilemma is to ask of a proposed action or decision:

1. Is it fair?
2. Is it right?
3. Who gets hurt?
4. Who has to pay for the consequences?

5. Do I/we want to assume responsibility for the consequences?

It is interesting to reflect on how many corporate disasters and crises might have been prevented had the leaders and those involved taken such questions seriously before making decisions. For example, the following precautionary actions might have prevented the disaster: updating the equipment and machinery that failed in the BP and the *Exxon Valdez* oil crises and investment banks and lending institutions following rules not to sell subprime mortgages that could not and would not be paid, actions that led to the near collapse of the global economy.

Limitations when using this principle involve deciding who is right and wrong and who has been harmed in complex situations. This is especially the case when facts are unavailable and the state or federal government has no objective external jurisdiction. In addition, we are sometimes faced with the question, "Who has the moral authority to punish to pay compensation to whom?" Still, as with the other principles discussed here, justice stands as a necessary and invaluable building block of democracies and freedom.

Virtue Ethics: Character-Based Virtues

Virtue ethics is based on character traits such as being truthful, practical wisdom, happiness, flourishing, and well-being. It focuses on the type of person we ought to be, not on specific actions that should be taken. Grounded in good character, motives, and core values, the principle is best exemplified by those whose examples show the virtues to be emulated.

Basically, the possessor of good character is moral, acts morally, feels good, is happy, and flourishes. Altruism is also part of character-based virtue ethics. Practical wisdom, however, is often required to be virtuous.

This principle is related to universalism. Many leaders' characters and actions exemplify how character-based virtues work. For example, the famous Warren Buffett is an icon of good character who demonstrates trustworthy values and practical wisdom. Applying this principle is related to a "quick test" before acting or making a decision by asking, "What would my 'best self' do in this situation?" Others ask the question, inserting someone they know or honor highly.

There are some limitations to this ethic. First, some individuals may disagree about who is virtuous in different situations and, therefore, would refuse to use that person's character as a principle. Also, the issue arises of "who defines *virtuous*, especially when a complex act or incident is involved that requires factual information and objective criteria to resolve?"

The Common Good

The common good is defined as "the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment." Decision makers must take into consideration the intent as well as the effects of their actions and decisions on the broader society and the common good of the many (Velasquez et al., 2014).

Identifying and basing decisions on the common good requires us to make goals and take actions that take others, beyond ourselves and our self-interest, into account. Applying the common good principle can also be guided by a simple question: "How will this decision or action affect the broader physical, cultural, and social environment in which I, my family, my friends, and others have to live, breathe, and thrive in now, next week, and beyond?"

A major limitation when using this principle is, "Who determines what the common good is in situations where two or more parties differ over whose interests are violated?" In individualistic and capitalist societies, it is difficult in many cases for individuals to give up their interests and tangible goods for what may not benefit them or may even deprive them.

Ethical Relativism: A Self-Interest Approach

Ethical relativism is not really a "principle" to be followed or modeled. It is an orientation that many use quite frequently. Ethical relativism holds that people set their own moral standards for judging their actions. Only the individual's self-interest and values are relevant for judging his or her behavior. Moreover, according to this principle, moral standards vary from one culture to another: "When in Rome, do as the Romans do."

Obvious limitations of relativism include following one's blind spots or self-interests that can interfere with facts and reality. Followers of this principle can become absolutists and "true believers," often believing and following their own ideology and beliefs. Countries and cultures that follow this orientation can result in dictatorships and absolutist regimes that practice different forms of slavery and abuse to large numbers of people. For example, South Africa's all-white National Party and government after 1948 implemented and enforced a policy of apartheid that consisted of racial segregation. That policy lasted until the 1990s, when

several parties negotiated its demise—with the help of Nelson Mandela (www.history.com/topics/apartheid). Until that time, international firms doing business in South Africa were expected to abide by the apartheid policy and its underlying values. Many companies in the United States, Europe, and elsewhere were pressured in the 1980s and before by public interest groups whether or not to continue doing business or leave South Africa.

At the individual level, principles and values offer stability and self-control while also affecting job satisfaction and performance. At the organizational level, principled and values-based leadership influences cultures that inspire and motivate ethical behavior and performance. The following section discusses how ethical leadership at the top and throughout organizations affects ethical actions and behaviors (Sisodia, Wolfe, & Sheth, 2007).

? Concept Check

1. What ethical guidelines can individuals and organizations use to make ethical choices?
2. Can being aware of the values you use to guide your actions make a difference in your choices?

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5.6: Leadership- Ethics at the Organizational Level

Learning Objectives

1. Understand the importance of ethical leadership in organizations.

Organizational leadership is an important first step toward identifying and enacting purpose and ethical values that are central to internal alignment, external market effectiveness, and responsibility toward stakeholders (Collins, 2001; Weiss, 2015). The scholar Chester Barnard (1939) defined a values-based leadership approach as inspiring "cooperative personal decisions by creating faith in common understanding, faith in the probability of success, faith in the ultimate satisfaction of personal motives, and faith in the integrity of common purpose." Exhibit 5.4 illustrates how vision, mission, and values are foundational in guiding the identification and implementation of an organization's strategic and operational questions and alignment—which is a major part of leadership.

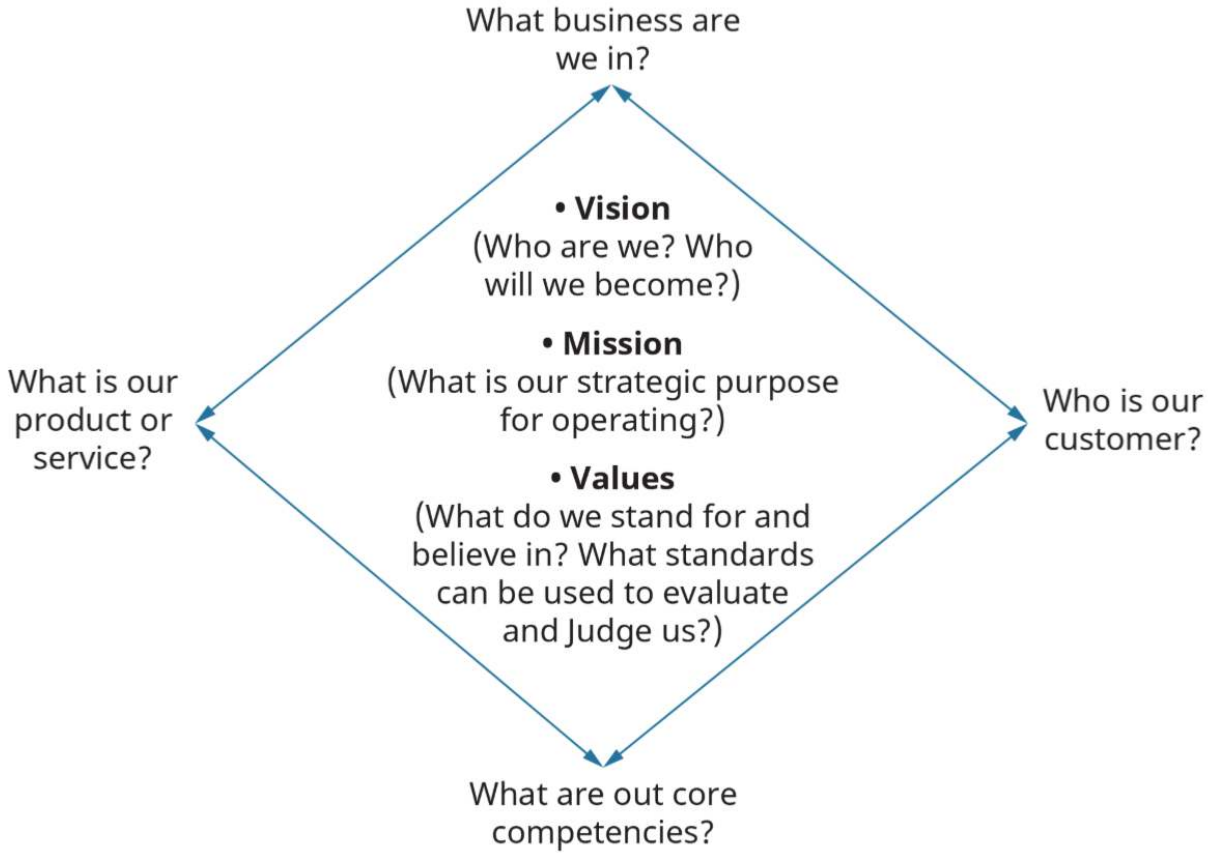


Exhibit 5.4 Strategic Organizational Alignment Source: Joseph W. Weiss. © 2014.

Leadership is defined as the ability to influence followers to achieve common goals through shared purposes (Rost & Barker, 2000). Organizational leaders are responsible to a wide range of stakeholders, stockholders, and employees toward meeting the organization's goals. How responsibly and ethically they choose to do so depends on several factors. From an ethical and related effectiveness perspective, the leader's values count since these generally become the values of an organization. A leader's influence is referred to as "the tone at the top." While a leader's values should align to those of the organization, its vision and mission, this is not always the case, as we know from the crises discussed earlier when referring to the classical failures at Enron, Tyco, WorldCom, Wells Fargo, and other notable companies.

Since leadership is a most important element in forming and directing an organization's strategy, culture, and governance system, it is often a shared responsibility among other officers and followers that cascades throughout the organization. For example, the widely acknowledged Ethisphere, a private firm that evaluates firms' ethical behavior and responsibilities, uses five criteria that produce a single Ethics Quotient (EQ) score. The first is a company's ethics and compliance program, which accounts for 35% of

the EQ. The second criterion is whether or not ethics is embedded into a company's culture and to what extent. The third element is corporate citizenship and responsibility, which measure companies' environmental impact. The fourth component is corporate governance—whether a firm's CEO and board chair are held by one or separate people. An increased focus recently emphasized diversity in board and leadership positions. The fifth criterion is leadership, innovation, and reputation (Kauflin, 2017).

According to Ethisphere, in 2017 there were 124 honorees spanning five continents, 19 countries, and 52 industry sectors. Among the Ethisphere (2017-2024) list are 13 eleven-time honorees and 8 first-time honorees. Honorees include "companies who recognize their role in society to influence and drive positive change in the business community and societies around the world. These companies also consider the impact of their actions on their employees, investors, customers and other key stakeholders and leverage values and a culture of integrity as the underpinnings to the decisions they make each day."

The top 10 ethical companies in 2017 as measured by Ethisphere's criteria are shown in Table 5.1.

World's Top 10 Most Ethical Companies Honorees:

Table 5.1

Company	Industry	Country
3M Company	Industrial Manufacturing	USA
Accenture	Consulting Services	Ireland
Aflac Incorporated	Accident & Life Insurance	USA
Allstate Insurance Company	Property & Casualty Insurance	USA
Alyeska Pipeline Service Co.	Oil & Gas, Renewables	USA
Applied Materials, Inc.	Electronics & Semiconductors	USA
Arthur J. Gallagher & Co.	Insurance Brokers	USA
Avent Inc.	Electronics & Semiconductors	USA
Baptist Health South Florida	Healthcare Providers	USA

Source: Adapted from Ethisphere, 2017-2024, https://www.worldsmostethicalcompanies.com/honorees/

Table 5.1

For ethical leaders, authenticity and integrity, in addition to their values, are also important components of character and behavior that must be translated into attitude and action toward followers, external stakeholders, and broader communities. Leaders are responsible for showing respect toward others, treating all stakeholders fairly, working toward a common good, building community, and being honest. These virtue-related values, also referred to as character-related, as discussed earlier, help create an ethical corporation and environment:

Show Respect for Others

Respecting others requires leaders to recognize the intrinsic worth of others and forces them to treat people as ends in themselves—never as a means to an end. In other words, people should be seen as valuable because of who they are (a universal principle), not only because of what they can do for others or how they can help others advance. Showing respect for others includes tolerating individual differences and allowing followers to think independently, act as individuals, and pursue their own goals. When a leader shows respect for followers by providing them autonomy, subordinates can feel more useful, valued, and confident. Such a situation often leads to greater loyalty and productivity among subordinates.

Treat All Stakeholders Fairly

Ethical leaders strive to treat everyone their decisions may affect fairly and justly. Equality is also a top priority for ethical leaders and needs to factor prominently into their decision-making. Ethical leaders must refrain from offering special treatment to others; failure to do so creates winners and losers—in-groups and out-groups—and can breed resentment between those who receive

special treatment and those who do not. The only exception occurs when an individual's specific situation warrants special treatment for a just outcome to be realized.

Preventing winners and losers from emerging is not always easy. Some situations require the distribution of benefits and burdens and thus can test a leader's ability to ensure that justice is achieved. Beauchamp and Bowie defined the common principles that guide leaders facing such dilemmas; their findings can help leaders allocate responsibilities fairly and justly (Beauchamp & Bowie, 1988). These principles stipulate that every person must receive an equal share of opportunity according to his needs, rights, effort, societal contributions, and performance.

Work Toward a Common Good

Mahatma Gandhi offers an example of what striving toward a common good entails. Known for his commitment to nonviolent protests and mass civil disobedience, the Indian activist and ideological leader spent 20 years in South Africa opposing legislation that discriminated against Indians. He spent the remainder of his life in India fighting for independence from foreign rule and working to reduce poverty and taxation, liberate women, and end multiple forms of discrimination (Lelyveld, 2011). He championed such causes not because he would personally benefit but because a larger, more substantial population would. Gandhi devoted his life to furthering social causes he believed in and developed a personal sense of purpose and meaning that later translated into a societal and then global ethic.

Ethical leaders strive to further social or institutional goals that are greater than the goals of the individual. This responsibility requires the ethical leader to serve a greater good by attending to the needs of others. This type of behavior is an example of altruism: a steadfast devotion to improving the welfare of others. Altruistic behavior may manifest in a corporate setting through actions such as mentoring, empowerment behaviors (encouraging and enabling others), team building, and citizenship behaviors (such as showing concern for others' welfare), to name a few.

Build Community

Whole Foods Market, purchased by Amazon in 2017, is well known for its community outreach programs on both local and global scales. Every Whole Foods store donates to community food banks and shelters. Throughout the year, it holds "5% days," when 5% of the day's net sales are donated to local nonprofit or educational organizations. Globally, the company established the Whole Planet Foundation to combat world hunger and supports programs addressing issues such as animal welfare, nutrition, and environmentally friendly production methods.

The effort of Whole Foods to strengthen its stores' local and global neighborhoods is a perfect example of leaders building community. When an ethical leader focuses on the needs of others rather than the self, other people will often follow suit. This can lead to a strong contingent of followers working with the leader to achieve a common goal that is compatible with the desires of all stakeholders. Furthering a common goal means no one can place his needs ahead of the group's goals, and an ethical leader cannot impose his will on others. A successful CEO who works with many charities or other individuals to feed the homeless exemplifies a leader-building community.

Be Honest

Honesty is considered desirable by practically everyone, but it is sometimes unclear what honesty demands of us. Being honest is not simply telling the truth and avoiding deceitful behaviors; it requires leaders to be as open as possible and to describe reality fully, accurately, and in sufficient detail. Telling the complete truth is not always the most desirable action, however. Leaders must be sensitive to the feelings and beliefs of others and must recognize that the appropriate level of openness and candor varies depending on the situation.

According to a survey, 58% of people internationally trust companies, but 42% are less sure. Being more transparent with customers, stakeholders, and stockholders should become a priority for leaders and boards of companies (The Guardian, 2014). Dishonesty can be a disastrous practice for a leader. Dishonest leaders distort reality, which can lead to unfavorable outcomes for all stakeholders. Researchers Cialdini, Petia, Petrova, and Goldstein (2004) found that dishonest organizations suffer from tarnished reputations, decreased worker productivity, and various damages related to increased surveillance. They concluded that the costs of organizational dishonesty greatly outweigh any short-term gains from such behavior.



Exhibit 5.5 Robert Cialdini (pictured) and other researchers claim that dishonest organizations suffer from tarnished reputations, decreased worker productivity, and various damages related to increased surveillance. They concluded that the costs of organizational dishonesty greatly outweigh any short-term gains from such behavior. (Credit: Dave Dugdale/ flickr/ Attribution-ShareAlike 2.0 Generic (CC BY-SA 2.0))

Stewardship and Servant Leadership Styles

Effective leaders and followers, who lead by example and demonstrate virtuous practices while demonstrating successful practices are more numerous than the media or press reveal. Entrepreneurs who practice both stewardship and servant leadership are also examples. Their names are not always recognizable nationally, but their companies, communities, and stakeholders know them well. For example, in 2017, Inc.com's list of top 10 leaders features four women CEOs who go beyond the "call of duty" to serve others while succeeding in business. For example, Brittany Merrill Underwood started and is CEO of Akola Jewelry and was named in Yahoo's "Best Person in the World" series in 2014. Her company "reinvests 100 percent of their profits to support work opportunities, training, social programs, and the construction of training centers and water wells in impoverished communities throughout the globe" (Oates, 2014).

A classic example of these leadership styles is also represented by Aaron Feuerstein, a previous CEO of a manufacturing plant in Massachusetts, whose example continues to represent both a steward and servant leadership style (YUNews, 2021).

✔ Managerial Leadership

Servant Leadership Personified: Aaron Feuerstein at Malden Mills

Aaron Feuerstein, a third-generation owner of Malden Mills in Lawrence, Massachusetts, suffered his factory burning to the ground on December 11, 1995. Feuerstein had the option of using the insurance money to rebuild the plant, but instead, he paid the salaries and complete benefits of all 3,000 workers for 6 months while the factory was rebuilt. He later said that he had no other option than to help the employees. His action was based on his study of the Talmud:

"I have the responsibility to the worker, both blue-collar and white-collar. I have an equal responsibility to the community. It would have been unconscionable to put 3,000 people on the streets and deliver a death blow to the cities of Lawrence and Methuen. Maybe on paper our company is worthless to Wall Street, but I can tell you it's worth more."

Feuerstein exemplified the two ethical leadership styles of stewardship and servant leadership, focusing specifically on how leaders work with followers. (Ethical leadership as a whole concerns the leader's characteristics and encompasses actions in both the internal and external organizational environment.)

Source:

Yeshiva University, "Remembering Aaron Feuerstein", November 17, 2021. https://www.yu.edu/news/remembering-aaron-feuerstein-zl

Questions

1. How does Aaron Feuerstein exemplify servant leadership principles?
2. If Feuerstein had decided to use the insurance money for other purposes, would he have not been acting ethically?

Stewardship is concerned with empowering followers to make decisions and gain control over their work. **Servant leadership** involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare. There is

a wealth of information on both of these styles. We will briefly address both here, as both involve treating followers with respect—a key component of ethical leadership—and endowing followers with the ability to grow both personally and professionally.

The stewardship approach instructs leaders to lead without dominating followers. Leaders who practice stewardship sincerely care about their followers and help them develop and accomplish both individual and organizational goals. Effective stewardship breeds a team-oriented environment in which everyone works together. Organizations led by steward leaders are marked by decentralized decision-making—that is, leadership is not centered in one person, group, department, or administrative unity; power is distributed among all stakeholders (Lussier & Achua, 2006).

The servant-leadership approach was formulated by Robert K. Greenleaf (1977), who believed that leadership is a natural corollary of service. Servant leadership goes beyond stewardship by requiring leaders to eschew personal accolades and devote themselves entirely to a greater cause. Greenleaf stated, "The essential quality that separates servant leaders from others is that they live by their conscience—the inward moral sense of what is right and wrong. That one quality is the difference between leadership that *works* and leadership—like servant leadership—that endures." The following aspects are central to servant leadership:

1. Placing service before self-interest. The servant leader's primary concern is helping others, not receiving recognition or financial reward.
2. Listening to others. Servant leaders recognize the importance of listening to the ideas and concerns of stakeholders; they never attempt to impose their will on others. This aspect allows servant leaders to strengthen relationships, understand group needs and dynamics, and effectively allocate resources to improve the group's welfare.
3. Inspiring through trust. As we discussed earlier, ethical leaders must be trustworthy. It does not take much effort for servant leaders to be truthful because they usually have strong moral convictions.
4. Working toward feasible goals. Servant leaders realize that many problems cannot be solved by one person. They also tackle the most pressing issues facing their groups.
5. Helping others whenever possible. Servant leaders lend a helping hand when the opportunity arises. An example is the district manager of a fast-food chain who helps part-time employees flip burgers during lunchtime rush hour. Another is the director of a business unit who observes that a team is short a member and needs help in meeting a deadline; the director joins the team for the afternoon to help meet the deadline (Greenleaf, 1977).

Another way of understanding the distinguishing characteristics of servant leadership is offered by DeGraaf, Tilley, and Neal (2004):

> The main assumption is that true leadership should call us to serve a higher purpose beyond ourselves. One of the most important aspects of leadership is helping organizations and staff identify their higher purpose. The best test of the servant-leadership philosophy is whether or not customers and staff grow as persons! Do customers become healthier, wiser, freer, more autonomous, and more likely to become "servants" themselves? And, what is the effect on the least privileged in society? Will they benefit? Or, at least, not be further deprived? To achieve this higher purpose of public organizations, you, as a leader, must be passionate about your desire to improve your community and yourself!

Dark Side of Organizational Leadership

However, as noted earlier, not all leaders lead or model high standards or values. Seven symptoms of the failure of ethical leadership provide a practical lens to examine a leader's shortsightedness:[36]

1. Ethical blindness: They do not perceive ethical issues due to inattention or inability.
2. Ethical muteness: They do not have or use ethical language or principles. They "talk the talk" but do not "walk the talk" on values.
3. Ethical incoherence: They cannot see inconsistencies among the values they say they follow (e.g., they say they value responsibility but reward performance based only on numbers).
4. Ethical paralysis: They are unable to act on their values due to lack of knowledge or fear of the consequences of their actions.
5. Ethical hypocrisy: They are not committed to their espoused values. They delegate things they are unwilling or unable to do themselves.
6. Ethical schizophrenia: They do not have a set of coherent values; they act one way at work and another way at home.
7. Ethical complacency: They believe they can do no wrong because of who they are. They believe they are immune.

Examples of highly unethical recent leaders and their dark side leadership practices are described in Inc.com's "What the 10 Biggest CEO Failures of 2022 Teach Every Leader" and many take-away messages, such as:

- Keep perspective. The entrepreneurial dream is special, but don't let the dream become a nightmare.
- It's never OK to disrespect employees. Stakeholders will judge you by your humanity -- or lack of it.
- If an idea isn't working, move on, and if necessary, move on with it.
- You can't hope your way to success. Sort underperformance sooner rather than later.
- Don't spin in a crisis. You're under the microscope as much for integrity as results.
- Know your partners. And don't skip due diligence in the rush to grow quickly.
- If it looks too good to be true, it is. Don't sell clients on junk.
- You can't keep everyone happy. Being true to your values makes it easier to deal with fallout.
- Disclose more rather than less in ethical matters as transparency takes precedence.
- Don't take on more than you can handle, and lead with your ego.

A major takeaway from the outstanding and undesirable ethical leadership examples presented here is that organizational culture *counts* and that without an ethical culture, both poor and exemplary moral leadership decisions flourish (Walsh, 2022).

? Concept Check

1. What role does leadership play in how ethically organizations and their members act and perform?
2. Explain what stewardship is and the role of servant leadership.

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5.7: Ethics, Corporate Culture, and Compliance

Learning Objectives

1. Understand the differences between values-based ethics and compliance in organizations.

An organization's culture is defined by the shared values and meanings its members hold in common and that are articulated and practiced by its leaders. Purpose, embodied in corporate culture, is embedded in and helps define organizations. Ed Schein, one of the most influential experts on culture, also defined organizational **corporate culture** as "a pattern of shared tacit assumptions learned or developed by a group as it solves its problems of external adaptation and internal integration that have worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (Schein, 2017).

As Exhibit 5.6 illustrates, culture plays an important integrating role in organizations both externally and internally. Strategy, structure, people, and systems are all affected by an organization's culture, which has been referred to as the "glue" that holds an organization together (Cameron & Quinn, 2011).

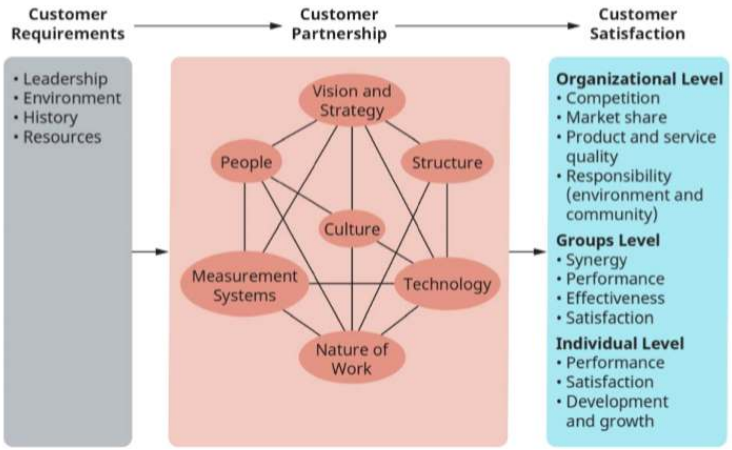


Exhibit 5.6 Role of Culture in Organizational Alignment (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Leadership exerts a powerful influence on culture. Schein noted that "culture and leadership are two sides of the same coin and one cannot understand one without the other" (Schein, 2017). Culture is transmitted through:

1. Values and styles that leaders espouse and practice
2. Heroes and heroines that the company rewards and holds up as models
3. Rites and symbols that organizations value
4. The way that organizational executives and members communicate among themselves and with their stakeholders.

Heskett argued that culture "can account for 20-30% of the differential in corporate performance when compared with 'culturally unremarkable' competitors" (Coleman, 2013).

While subcultures develop in organizations, the larger organization's culture influences these, especially with strong leaders and leadership teams who set the tone at the top and communicate expectations and performance standards throughout. Other factors that indicate and help create a strong ethical culture include the following, which are based on the reputable assessment firm Ethisphere's experience (Coffin, 2017).

An organization models and communicates compliance standards through its values; employees are informed of and familiar with the assets and efforts of the compliance and ethics function.

- The culture sets "enduring and underlying assumptions and norms that determine how things are actually done in the organization" (Killingsworth, 2012).

- “Organizations can effectively identify specific locations, business units, job levels, and job functions that may lack a full understanding of available resources, feel unwanted pressure, or perhaps hold negative perceptions.”
- Companies and investors believe a company behaves and acts ethically.
- Employees are aware of senior leaders' conduct, values, and communications.
- Employees are engaged and committed, and organizations regularly survey employees to get a sense of their engagement.
- Employees feel “less pressure to compromise company standards to achieve company goals. And if they do observe misconduct, they are more likely to feel comfortable reporting it.”
- “Employees perceive the ethical priorities of their coworkers, the values of their organization and willingness to share opinions" (Coffin, 2017).

Compliance and Ethics

As the section above indicates, both values-based and compliance approaches are necessary for maintaining an ethical corporate culture. Ethics has been characterized as “doing the right thing” and as a motivational force influencing professionals’ values—resembling a “carrot” approach to professionals’ behaviors. Compliance is related to influencing behaviors to act according to the law or face consequences—referred to as a “stick” approach. Studies show that ethical and compliance approaches are interrelated and work best to motivate and sustain lawful and ethical behavior in organizations (Weller, 2017).

One law in particular set a new baseline of accountability for chief executive officers (CEOs) and chief financial officers (CFOs): the federal Sarbanes-Oxley Act of 2002, 2010. This law was the first following the Enron scandal and other corporate scandals that placed constraints and issued punitive measures on CEOs and CFOs who could be punished if they knowingly and willingly committed fraud and other crimes. Several new sections of that law also signaled a change in corporate leaders’ responsibilities and liabilities; for example, the law “[establishes] an independent public company accounting board to oversee audits of public companies; requires one member of the audit committee to be a finance expert; requires full disclosure to stockholders of complex financial transactions: requires CEOs and CFOs to certify in writing the validity of their companies’ financial statements. If they knowingly certify false statements, they can go to prison for 20 years and be fined $5 million; -Prohibits accounting firms from offering other services, like consulting, while also performing audits” (Federal Sentencing Guidelines, 2004). Other parts of this law further establish compliance regulations (PriceWaterhouseCoopers, 2003).

Because of the widespread corporate scandals discussed at the beginning of the chapter, the U.S. Congress implemented legal and compliance standards to curb and discourage illegal activities in corporations. While self-regulation will always play a major role in corporations’ “doing the right thing,” compliance has proven to be a necessary but not always sufficient element of corporate governance. Ethics continues to complement compliance, especially since the law cannot, does not, and will not cover every aspect of potentially harmful behaviors. Ethical dimensions and practices such as transparency, privacy, honesty, objectivity, integrity, carefulness, openness, respect for intellectual property, civility, confidentiality, accountability, responsible mentoring, and respect for colleagues are all necessary to motivate organizational behavior.

Ethical values become “actionable” in corporations when corporations first become aware of and then assume responsibility for the corporation’s duties toward its stakeholders and stockholders. Social responsibility as a concept originated in 1953 when Howard R. Bowen, known as the “father of corporate social responsibility” (CSR), referred to in a book to the “Social Responsibilities of the Businessman" (Carroll, 2008).

? Concept Check

1. In what ways do law and compliance complement ethics in organizations?
2. How does stakeholder management differ from stockholder management?

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5.8: Corporate Social Responsibility (CSR)

Learning Objectives

1. Understand the value CSR (corporate social responsibility) programs offer organizations and society.

CSR contributes to another form of self-regulation that goes further and involves firms taking action to help people and the environment. CSR is described as “a belief that corporations have a social responsibility beyond pure profit.” In other words, “Firms are social entities, and so they should play a role in the social issues of the day. They should take seriously their ‘obligations to society’ and actively try to fulfill them" (Freeman & Gilbert, 1988). As such, corporations should employ a decision-making process to achieve more than financial success on the assumption that CSR is integral to an optimum long-term strategy.

In the 21st century, sustainability and corporate social responsibility (CSR) have become strategic imperatives for organizations as fundamental market forces for financial viability and success, where consumers are important stakeholders. Businesses worldwide develop CSR initiatives to become better corporate citizens but also to communicate their activity to both internal and external stakeholders, which may involve a number of groups.

A study by Horizon Media’s Finger on the Pulse found that “81 percent of Millennials expect companies to make a public commitment to good corporate citizenship" (Rudominer, 2017). The 2015 Cone Communications Millennial CSR Study found that “[m]ore than nine-in-10 Millennials would switch brands to one associated with a cause (91% vs. 85% U.S. average), and two-thirds use social media to engage around CSR (66% vs. 53% U.S. average)" (Rudominer, 2017).

The 3 P’s (profit, the people, and the planet), or “the triple bottom line” (TBL), is another concept (closely related to and reflective of the mission of CSR and firm activities (Elkington, 1999). TBL—also known as 3BL—incorporates and assists businesses in measuring accountability in their funding of and support for social, environmental (ecological), and financial benefits to allow for a greater good. Many corporations have started to add triple-bottom-line metrics to their business plans to evaluate their overall performance and reflect on how companies are contributing to society. A small sample of contemporary CSR initiatives make a difference. For example:

- The 3MGives corporation funded $67 million in 2016 to focus on the community and the environment, along with educational initiatives boosting student interest in science and technology.
- Apple was named by the environmental organization Greenpeace as the “greenest tech company in the world” for over three years because that firm’s packaging is manufactured with 99 percent recycled paper products.
- Walt Disney Company’s social mission to strengthen communities states “by providing hope, happiness, and comfort to kids and families who need it most.” The Walt Disney Company donated more than $400 million to nonprofit organizations in 2016.
- Virgin Atlantic’s “Change is in the Air” sustainability initiative states its mission as: “Environment, sustainable design and buying, and community investment.” This firm has since 2007 “reduced total aircraft carbon emissions by 22% and [has] partnered with LanzaTech to develop low carbon fuels for the future. Virgin Holidays donates £200,000 annually to the Brandon Center for Entrepreneurship Caribbean to support young entrepreneurs in Jamaica” (Villas, 2017).
- Johnson & Johnson focused on reducing their impact on the planet for three decades. Their initiatives range from leveraging the power of the wind to providing safe water to communities around the world. The company continues to seek out renewable energy options with the goal of having 100% of its energy needs from renewable sources by 2025 (Digital Marketing Institute, 2024).
- Ford's mission is to "build a better world, where everyone is free to move and pursue their dreams." They have increased investment in electrification to $22 billion (from an original $11 billion) and aim for their vehicles to be carbon neutral by 2050 (Digital Marketing Institute, 2024).





Exhibit 5.7 Hasbro Hasbro relies heavily on its strategic brand blueprint to guide its efforts in CSR, innovation, philanthropy, and product development. With a business portfolio that includes such well-known brands as Nerf, Play-Doh, Transformers, and Mr. Potato Head, the company focuses its CSR efforts on four key areas: product safety, environmental sustainability, human rights and ethical sourcing, and community. Here one of its products is featured at the Thanksgiving Day parade in New York City. (Credit: rowenphotography/ flickr/ NoDerivs 2.0 Generic (CC BY-ND 2.0))

While CSR is not a cure-all that can or will significantly make a difference in ushering in more sustainable environmental practices, help alleviate poverty, and use profits to help lower-income communities, it contributes to both internal and external stakeholder awareness to “do the right thing.” For example, Teng and Yazdanifard (2014) argue and present evidence that some consumers do take CSR into account while making purchase decisions. Also, CSR initiatives and actions have been shown to positively influence both internal and external stakeholders (Teng & Yazdanifard, 2014). A study conducted in New Zealand explored the perceptions of internal stakeholders of New Zealand companies to discover how the CSR, sustainability cultures, and identity are communicated internally. It was found that employee behaviors matter, as organizations that are well regarded in the community attract greater external loyalty, have more stable revenues, and face fewer crisis risks. A positive relationship with staff in organizations through CSR policies will attract better employees and influence the morale, motivation, and loyalty of existing staff. The effective delivery of CSR initiatives also depends on how responsive employees are. If companies wish to achieve legitimacy by operating within a society’s ethical expectations, they must also communicate internally to ensure that CSR activities are integrated into the organizational culture—they cannot “talk the talk” without “walking the walk" (Menichini & Rosati, 2014; Becker-Olsen et al., 2006).

So, does CSR benefit the companies that practice such measures? A meta-analysis of 52 studies with a sample size of 33,878 observations suggested that “corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility, is likely to pay off. . . . CSP [corporate social performance] appears to be more highly correlated with accounting-based measures of CFP [corporate financial performance] than with market-based indicators, and CSP reputation indices are more highly correlated with CFP than are other indicators of CSP.” Many business scholars do believe that some of these relationships

are positive (Orlitzky et al., 2003). Robbins (2015) concludes that "[o]n balance, surveys and the research literature suggest that what most executives believe intuitively, that CSR can improve profits, is possible. And almost no large public company today would want to be seen unengaged in CSR. That is clear admission of how important CSR might be to their bottom line, no matter how difficult it may be to define CSR and link it to profits."

Without exception, the managers articulated the importance of communicating CSR initiatives and policy to their employees, as well as recognizing the need to improve their CSR internal communication strategies. According to the managers, CSR initiatives are promoted to create better corporations and a more ethical business environment. These included recycling, carpooling, staff development, and social activities. External initiatives included volunteering, fund-raising, and charitable donations.

Stakeholder Management

CSR and **stakeholder management** are complementary approaches. Stakeholder theory argues that corporations should treat all their constituencies fairly and that doing so can strengthen companies' reputations, customer relations, and performance in the marketplace (Berman et al., 1999). "If organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purposes" (Freeman, 1999).

The ethical dimension of stakeholder theory is based on the view that profit maximization is constrained by justice, that regard for individual rights should be extended to all constituencies who have a stake in a business, and that organizations are not only "economic" in nature but can also act in socially responsible ways. To this end, companies should act in socially responsible ways, not only because it's the "right thing to do," but also to ensure their legitimacy (Weiss, 2014; Bowie & Duska, 1991).

A stakeholder management approach first involves identifying a company's stakeholders. A **stakeholder** is any group or individual who can affect or is affected by an organization's strategies, major transactions, and activities. Stakeholders include employees, suppliers, customers, shareholders, the government, media, and others. An illustration of the stakeholder relationships is provided in Exhibit 5.8. The term **stakeholder** has become commonplace in organizations. Companies and organizations that base their strategic decisions on the principle of duty to earn stakeholder trust "are likely to yield a number of strategic benefits, too, and can help manage political, social, and reputational risk" (Freeman & Gilbert, 1988).



Exhibit 5.8 Stakeholder Map Source: Freeman, R. Edward. (1984). Strategic management: A Stakeholder approach, 25. Boston: Pitman. Reproduced with permission of the author.

Identifying and Influencing Major Stakeholders

There are several methods for analyzing stakeholder transactions and relationships with an organization that go beyond the purpose of this chapter (Donaldson & Preston, 1995). Using an ethical perspective, a goal of this approach is for organizations to employ

values of transparency, fairness, and consideration of stakeholder interests in strategic decisions and transactions. Toward that end, the following questions can be used from Exhibit 5.8.

1. Who are the stakeholders (that is, people who have an interest in supporting or resisting a proposed course of action, resolving an issue, and addressing a change)?
2. What are their stakes in either supporting or resisting the change?
3. What do the supporters stand to gain and lose from the change?
4. What do the resistors stand to gain and lose from the change?
5. What type(s) of power do the supporters have regarding the change?
6. What type(s) of power do the resisters have regarding the change?
7. What strategies can we use to keep the support of the supporters?
8. What strategies can we use to neutralize or win over the resisters?

Based on this approach, an organization's leaders and officers inform, involve, obtain feedback from, and influence each of their stakeholders regarding strategy, issues, or opportunities the organization pursues. The Coca-Cola Company uses an ongoing stakeholder approach that is described on this site: https://www.coca-colacompany.com/policies-and-practices/transparency#stakeholderEngagement.

Had BP followed this approach in 2010, the now largest oil spill and rig explosion crisis in the history of such operations that occurred in the Gulf of Mexico, killing 11 workers and damaging over 600 square miles of land and sea, might have been prevented. It appeared that the leadership and culture at BP had been lax and out of touch with its stakeholders—and stockholders. Consequently, the machinery and equipment were dated and not optimally functioning. One consequence is that employees, workers, communities, and the public may not have suffered that crisis and the continuing aftereffects.

CSR and stakeholder management have demonstrated benefits to firms' reputations and profitability (Falck & Heblich, 2007). The relationship between an organization's ethics and social responsibility and its performance concerns managers and organization scholars. Studies have shown a positive relationship between ethical and socially responsible behavior and financial results. For example, one study of the financial performance of large U.S. corporations considered "best corporate citizens" found that they have both superior reputations and financial performance (Verschoor & Murphy, 2002). Similarly, Governance Metrics International, an independent corporate governance ratings agency, found that the stocks of companies run on more selfless principles perform better than those run in a self-serving manner. Top-ranked companies such as Pfizer, Johnson Controls, and Sunoco outperformed lower-ranking firms on measures such as return on assets, return on investment, and return on capital (Dvorak, 2007).



Concept Check

1. How do sustainable business practices benefit consumers?
2. Differentiate the roles compliance and CSR programs serve in organizations. Are these the same, or are there differences? Explain.

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5.9: Ethics around the Globe

Learning Objectives

1. What are ethical issues we encounter in the global environment?

Organizations operating globally often face particularly tough ethical challenges because of various cultural, political, economic, technological, and market factors. The greater the complexity of the environment, the greater the potential for ethical problems and misunderstandings for global organizations (Digital Marketing Institute, 2024; Daft, 2016). “Think … of the ethical value systems that shape behavior within and between countries, and the unpredictability that can result when there is a re-evaluation of what is acceptable and unacceptable.” Recent and reoccurring global ethical problems and risks that organizations face include cybersecurity, artificial intelligence, political threats, international conflict and warfare, income inequality, planetary climate and environmental pollution and instability, corruption, and human and diversity rights violations. Exhibit 5.9 illustrates the wide range of stakeholders and issues related to several of the risks in this figure that MNEs (**multinational enterprises**) must either prevent from occurring or manage when doing business across and within different country borders.

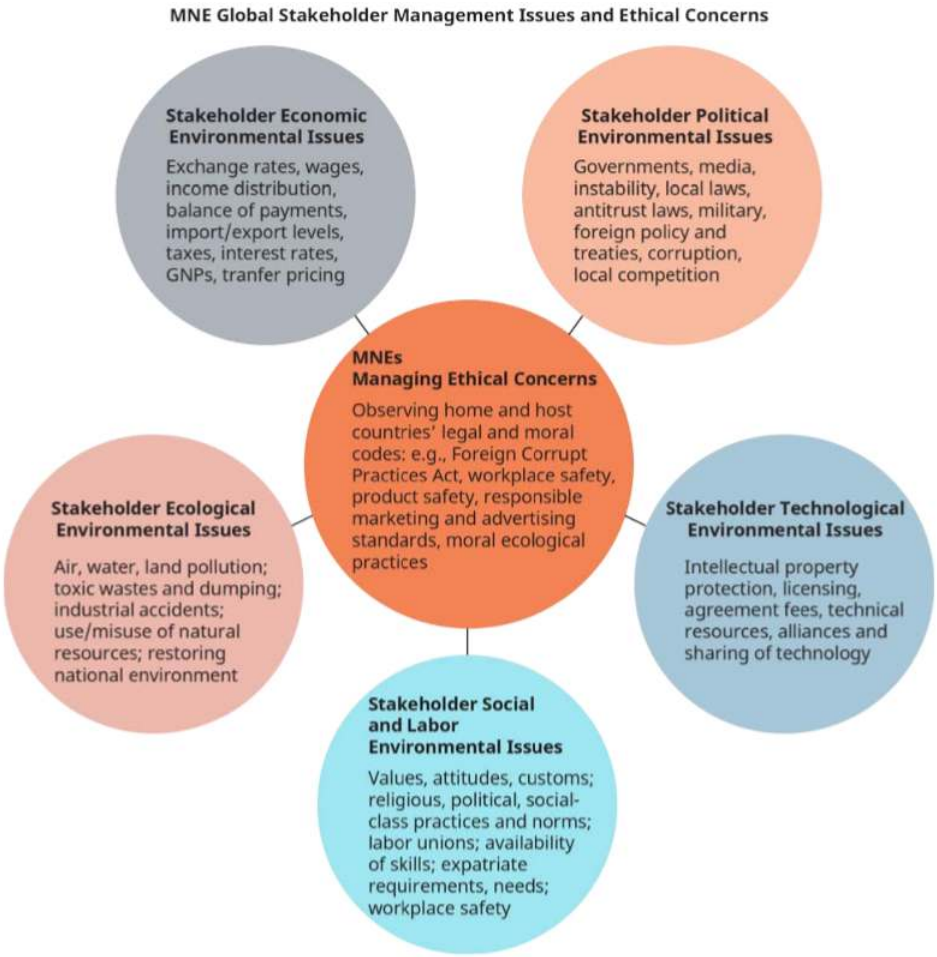


Exhibit 5.9 MNE Global Stakeholder Management Issues and Ethical Concerns Source: Copyright © Joseph W. Weiss, Bentley University, Waltham, MA. 2014.

Following laws related to doing business abroad is an added challenge for global firms. For example, the Foreign Corrupt Practices Act (FCPA) prohibits American firms from accepting or offering bribes to foreign government officials and helps promote transparency and fair play while also contributing to profitability. U.S. individuals who cannot defend their actions with regard to the FCPA’s antibribery provisions can face harsh penalties. “U.S. companies can be fined up to $2 million while U.S. individuals (including officers and directors of companies that have willfully violated the FCPA) can be fined up to $100,000 and imprisoned

for up to five years, or both. In addition, civil penalties may be imposed" (Weiss, 2014). The U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) have been more aggressive in enforcing and prosecuting the bribery section of the FCPA. Halliburton Company in 2017 paid the SEC $29.2 million for bribing a friend of an official in Angola to negotiate seven oil-field services contracts. The result was a disgorgement fine (i.e., a repayment of illegal gains with penalties imposed on wrongdoers by the courts) for violating the FCPA's records and internal accounting controls provisions (Cassin, 2017).

U.S.-based firms are also expected to not engage in unethical or illegal activities such as discriminating against local populations, violating local laws and norms, and disrespecting property and the environment. MNEs can also assist and add value to local countries. For example, the following practices are encouraged:

- Hiring local labor
- Creating new jobs
- Co-venturing with local entrepreneurs and companies
- Attracting local capital to projects
- Providing for and enhancing technology transfer
- Developing particular industry sectors
- Providing business learning and skills
- Increasing industrial output and productivity
- Helping decrease the country's debt and improve its balance of payments and standard of living (Weiss, 2014).



Globalization

According to Dutton (1999), the increasing phenomenon of globalization (an integrated global economy consisting of free trade, capital flows, and cheaper foreign labor markets) also pressures global firms facing international risks to rely on governments, NGOs (nongovernmental organizations), the UN (United Nations), and other business and stakeholder alliances and relationships to help meet non-market threats. For example, the ten principles of the UN Global Compact serve as guidelines for international firms doing business in LDCs (least developed countries), and abroad, businesses should:

1. support and respect the protection of internationally proclaimed human rights
2. ensure that they are not complicit in human rights abuses
3. uphold the freedom of association and the effective recognition of the right to collective bargaining
4. eliminate of all forms of forced and compulsory labor
5. abolish child labor
6. eliminate the discrimination of employment and occupation
7. support a precautionary approach to environmental challenges

8. promote greater environmental responsibility through initiatives
9. encourage the development and diffusion of environmentally friendly technologies
10. work against corruption, including extortion and bribery (United Nations Global Compact, 2024).

While these principles seem universal as to be unattainable, they stand as ethical milestones that protect human life, dignity, and personal welfare and values. However, when companies operate in LDCs and other cultures, it is often necessary to negotiate a balance between fairness, equality, and different local values and standards. U.S. and Western values, such as child labor and employee rights, may differ from local cultural norms in many countries. Donaldson and Dunfee offer methods for such negotiations (Fort, 2000). A classic example was Levi Strauss doing business in Bangladesh several years ago. Children in that country under the age of 14 were working in two of Levi's local suppliers. This employment practice violated Levi's norms but not the local cultural norms. Firing the children would have prevented the children from being able to get an education and would have placed hardships on their families, who depended on the children's wages. A negotiated agreement (between Levi's universal values and local country norms) involved the suppliers agreeing to pay the children regular wages while they went to school and then hiring them when they turned 15. Levi agrees to provide the children's tuition, books, and uniforms.

Globalization: Post-Pandemic

There's no denial that the COVID-19 pandemic also affected globalization in terms of travel reduction, trade, and healthcare inequalities. While most individuals may say that the pandemic is "over" as of 2024, cracks are occurring in the success of globalization.



MNEs Corporate Cultures

MNEs must also create inclusive, ethical corporate cultures while managing both external and internal complexities, such as hiring and training a diverse workforce, adapting to local cultura norms while balancing home country ethics and values, and ensuring a multicultural approach to doing business across countries.

Hanna identified five strategic questions that relate to organizational cultural sensitivities when doing business abroad as well as in a home country:

1. What do customers and stakeholders in our market expect from our organization? (Will their standard of living be raised? Will their cultural expectations be violated?)
2. What is our strategy to be successful in this competitive marketplace? (What can we realistically hope to achieve? What results are we willing to commit to?)
3. What are our governing values that define how we will work with stakeholders and with each other?
4. What organizational capabilities do we need in order to achieve these results?

5. What do our work processes, roles, and systems need to do so that we are consistent with all of the above? (Hanna, 2016)

The author maintains that these questions will help bring an awareness to cultural differences and help organizational leaders and staff reach agreement on customizing decisions to fit a particular market while balancing company principles with local values.

Global firms are also sensitized to the #MeToo movement in the United States that raises women's awareness and courage to speak out about sexual harassment and assault in companies and workplaces. This movement further highlights the need to diversify and integrate workforces based on gender and other traits that match customers' and population characteristics. This need is not only based on ethical factors such as fairness, equality, rights, and justice, but also on competitive advantage and marketing awareness. To that end, organizational leaders are implementing more gender-balanced talent pools, especially at the early-to mid-career levels and the mid-to-upper levels globally. Gender balance is now seen as "a broader, more strategic cultural shift that includes developing leadership teams representing geographically diffuse markets. These leaders recognize that this balance drives the innovation and market understanding they need for other key business transformations. Without balance, they simply won't understand the world that's emerging" (Wittenberg-Cox, 2017).

For example, Dutch-based Royal DSM—the $8 billion global company in health, nutrition, and materials science—has shifted from a male-run organization to a gender-balanced leadership team in three steps: (1) setting a vision connecting the goal to business success, (2) engaging men of the firm's dominant nationality, and (3) building competencies while working across nationality and gender differences. In 2000, DSM's top 350 executives were 75% Dutch and over 99% male. In 2017, the firm was 40% Dutch and 83% male. The CEO, Feike Sijbesma, plans to decrease the male ratio by 2% per year and down below 75% by 2025. He is prioritizing sustainability and credibility more than speed (Wittenberg-Cox, 2017).

Govindarajan's research indicated that even though organizational cultures may vary widely, there are specific components that characterize a global culture. These include an emphasis on multicultural rather than national values, basing status on merit rather than nationality, being open to new ideas from other cultures, showing excitement rather than trepidation when entering new cultural environments, and being sensitive to cultural differences without being limited by them (Dutton, 1999). Managers must also think more broadly in terms of ethical issues. Companies are using a wide variety of mechanisms to support and reinforce their ethics initiatives on a global scale. A useful mechanism for building global ethics in an organization is the social audit, which measures and reports a company's operations' ethical, social, and environmental impact (Johnson, 2003).

Also, as noted earlier in the chapter, Ethisphere—a renowned organization that evaluates the effectiveness of an organization's communication, training, ethics, culture, and compliance efforts to gain insights into employee concerns—continues to survey and publish annual results of "The World's Most Ethical Companies" (Ethisphere, 2020). These surveys offer benchmarks of global and national companies' best ethical practices. A major finding from one of that organization's conferences stated that "[o]ut of the 644 respondents to the NAVEX Global 2016 Ethics & Compliance Training Benchmark Report, 70 percent said that 'creating a culture of ethics and respect' was one of their top training objectives. When it comes to CEOs, 92 percent agree that a strong corporate culture is important."

Post-Pandemic and Ethics around the Globe

Although COVID-19 was a new global virus, healthcare ethical issues prompted by the pandemic were not. Ethics must be integrated into emergency decision-making before the actual emergence of a global emergency, ensuring that ethics expertise is present before an emergency response is conceived and is effectively integrated into decision making. Ethicists should be at the table when policies are formulated rather than merely serving as external critics. Achieving these aims will require a sustained, focused effort to enhance ethics capacity at key global, national, and local public health organizations, academic institutions, and governmental agencies. Ultimately, the pandemic made ethical thinking and discussion more common than ever — a change that might well outlast the virus itself (Ross, 2021; Emanuel et al., 2022).

? Concept Check

1. What ways can and do some MNEs demonstrate social responsibility in foreign countries?
2. What are some specific ethical business practices other countries (besides the United States) and regional governing bodies (such as the European Union) practice and demonstrate regarding the environment and competition?

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5.10: Emerging Trends in Ethics, CSR, and Compliance

Learning Objectives

1. Identify forecasts about contemporary ethical and corporate social responsibility issues.

Predicted trends in ethics, compliance, and corporate social responsibility for Fortune 500 companies, governments, groups, and professionals by Navex Global for 2024 include the following:

1. *AI needs governance too*
   While the technology behind AI is powerful, companies need to properly govern the channel. Compliance officers will play a role in guiding the enterprise adopt AI in an ethical, legal, sustainable way, establishing enterprise-wide governance.
2. *The EU continues to lead global sustainability*
   ESG regulation driven out of the EU, such as CSRD, CSDDD, and the German Supply Chain Act, are affecting organizations globally. Organizations will need to boost efforts to build a foundation as the ESG landscape continues consolidating and enforcing ramps up.
3. *The nth supplier will enter daily supply chain vernacular*
   There are laws on the horizon likely to upend supply chain due diligence and reporting requirements. Regulators will expect companies to collect and report on large amounts of data about their suppliers' suppliers as scrutiny of supply chains by all stakeholders grows stronger.
4. *Data related laws continue to proliferate*
   As cyber-attacks escalate and sanctions regimes become more common and stringent, governments – from the U.K. to California and China – will continue passing legislations to keep citizens' data under control.
5. *Boards of directors get risk and compliance savvy*
   The increased attention to cybersecurity, data privacy, human rights, third-party risk, and sanctions enforcement means boards will become more fluent in compliance programs, laying the groundwork for risk and compliance to be viewed as a strategic imperative for the board.
6. *Sanctions: the "new" FCPA*
   The growing prominence of sanctions and the associated expansion of ESG factors will likely continue unabated, especially as the DOJ labeled sanctions enforcement as the "new FCPA."
7. *Evolving DOJ compliance program expectations*
   Next year will see evolving expectations when it comes to corporate claw backs, messaging app communication channels and M&A due diligence. Hinting at things to come, DOJ officials emphasized data analytics as a key part of an effective compliance program.
8. *Compliance and cybersecurity leaders take their relationship to the next level*
   As cyber threats intensify, and regulatory expectations increase, partnerships between cybersecurity and compliance leaders will be key to mitigating insider threats, protecting confidential information, and fortifying programs that can withstand governmental enforcement scrutiny.
9. *Compliance data becomes critical for decision making and business resiliency*
   The best defense against unfavorable outcomes is comprehensive knowledge of an organization's risk and compliance environment because the regulatory burden of proof requires data. As the number of regulations continues to grow, a framework that ties together data from different systems will be critical to GRC success.
10. *Remote workforces introduce new risks*
    Forward thinking organizations will pay close attention to their own data and published trends to proactively address the emergence of increased susceptibility to fraud, new cyber exploits, and red flags signaling the erosion of ethical culture. CEOs will acknowledge the challenges of this new paradigm, empowering organization-wide ownership of a safe and ethical workplace.

Ethics and compliance go hand in hand, as stated earlier. With a strong ethical culture, compliance is more effective in preventing risks, and without a compliance program, those who deliberately choose to break laws and codes of conduct would create disorder.

According to Keith Darcy, an independent senior advisor to Deloitte & Touche LLP's Regulatory and Operational Risk practice, "Strong cultures have two elements: A high level of agreement about what is valued and a high level of intensity with regard to those values. In the long run, a positive culture of integrity is the foundation for an effective ethics and compliance program, which, when properly embedded into an organization, can create a competitive advantage and serve as a valuable organizational asset" (Deloitte, 2018).

Moral Entrepreneur: A New Component of Ethical Leadership?

An innovative development in ethics and business is the concept of "moral entrepreneur" (Kaptein, 2017). Brown and Trevino found that people who have been exposed to a **moral entrepreneur** are more likely to become moral entrepreneurs themselves because they have experienced its potential and experienced how it is done. Inspiration certainly takes place, and the person's well-being is improved (Brown & Trevino, 2006).

Related to moral entrepreneurship is ethical leadership. Brown and Trevino's ethical leadership is defined as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making." Examples of such conduct include openness, honesty, and treating employees fairly and thoughtfully. Social learning theory was used to gain an understanding as to why ethical leadership is important to employees and how it is perceived to work.

Ethical leaders are models of ethical conduct who become the targets of identification and emulation for followers. For leaders to be perceived as ethical leaders and to influence ethics-related outcomes, they must be perceived as attractive, credible, and legitimate. They do this by engaging in behavior seen as normatively appropriate (e.g., openness and honesty) and motivated by altruism (e.g., treating employees fairly and considerately). Ethical leaders must also gain followers' attention to the ethics message by engaging in explicit ethics-related communication and by using reinforcement to support the ethics message (Brown & Trevino, 2006).

In addition to social learning theory, which focuses on why and how supporters follow a leader, a social development approach to the concept of ethical leadership is also needed because it focuses on the direction that leadership should take. Studies on corporate social responsibility are concerned with how companies can contribute to societal development, not only in the sense of solving social problems but also in the sense of improving social welfare, promoting social progress, and creating new social value.

Muel Kaptein argues that ethical leadership has a third component—moral entrepreneurship, in addition to the already defined components of the moral person and the moral manager (Kaptein, 2017). He believes that moral entrepreneurship opens avenues for studying various antecedents and outcomes of ethical leadership that hasn't been acknowledged adequately to date.

Studies of the antecedents of ethical leadership, at both the situational and personal levels, have found that leaders who have had ethical role models are more likely to become ethical leaders (Brown & Trevino, 2006). These studies have also found that the personality traits of agreeableness and conscientiousness are positively related to ethical leadership. And studies on corporate social responsibility are concerned with how companies can contribute to societal development, not only in the sense of solving social problems but also in the sense of improving social welfare, promoting social progress, and creating new social value.

According to Kaptein (2017), someone who creates a new ethical norm is called a moral entrepreneur. Becker believes that those people who make moral reform happen are the moral entrepreneurs. He differentiates between two kinds of moral entrepreneurs: those who create new norms and those who enforce new norms. The moral entrepreneur experiences something horrific that prompts him to want to do something to solve the issue, as Kaptein describes, a want to correct by translating a preferred norm into legal prohibitions: however, he risks becoming an outsider himself if he is unable to congregate support for the new norm.

Kaptein (2017) states that the component of moral entrepreneurship complements the two other components of ethical leadership (moral person and moral manager) because it highlights the creation of new norms instead of only following and implementing current ethical norms. Becker suggests that helping others is important and having the altruistic trait is important for a moral entrepreneur. Yurtsever, in developing a scale for moral entrepreneurship personality, suggests that moral entrepreneurs demonstrate high moral virtues, such as justice and honesty (Gregory, 2017). Moreover, being a moral manager is important to be able to get the support of others to follow the new ethical norm. To be successful as a norm creator, one needs the support of others. Even though the three components of ethical leadership complement each other, it is still possible for someone to exhibit only one or two of the components, making ethical leadership a multidimensional construct. For instance, one can be a moral entrepreneur

without being a moral manager (what Becker calls the norm creator), or one can be a moral manager without being a moral entrepreneur, what Becker calls the norm enforcer.

Concluding Comments

So, does it pay to be ethical and moral, whether an entrepreneur and an individual or a corporation and organization? We have discussed this question in this chapter and presented different arguments with different views. Scholars and ethicists who have debated whether or not corporations can be ethical differ in their responses. One such conference at the INSEAD Business School in France closed with the following statement: “Theoretically, a strong case can be made for the moral responsibility of firms. However, this does not preclude individual moral responsibility for acts as a corporate member. Moreover, it was also evident that considerable concern exists about corporate misconduct going unsanctioned and the possibility that both good and bad corporate behavior is profoundly influenced by the extent to which individuals and corporate entities are held morally responsible" (Smith, 2014).

This statement implies that both corporations and individuals bear the possibility and responsibility for unethical—as well as illegal—acts. While corporations are not individuals, people work and relate in corporate and work settings. That is why organizational leaders and cultures play such important roles in setting the tone and boundaries for what is acceptable (ethically and legally) and what is not. Ethical values and legal compliance codes of conduct work together to prevent and, if necessary, seek correction and justice for unlawful actions. As noted earlier, promoting and rewarding ethical actions are more desirable and, in the long-term, more profitable.

Prooijen and Ellemers’s social identity analysis study found that individuals are attracted to teams and organizations with positive features such as organizational “competence and achievements” and “moral values and ethical conduct.” Since these two features do not always cohere in working environments, the authors’ study had students choose in three different studies which they would prefer in seeking employment: “perceived competence vs. morality of a team or organization.” They found that “[results] of all three studies converge to demonstrate that the perceived morality of the team or organization has a greater impact on its attractiveness to individuals than its perceived competence" (Van Prooijen & Ellemers, 2014).

? Concept Check

1. What are some emerging national and global issues and trends in ethics and business ethics?

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5.11: Summary

Key Terms

Business ethics

The area of applied ethics that focuses on real-world situations and the context and environment in which transactions occur.

Corporate culture

The beliefs and behaviors that determine how a company's employees and management interact inside an organization and handle outside business transactions. Corporate culture develops organically over time from the cumulative traits of the leaders and the people that the company hires.

Ethical dilemma

A situation in which a difficult choice has to be made between two courses of action with ethical consequences.

Ethical relativism

Holds that people set their own moral standards for judging their actions, based on self-interest.

Ethics

The code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong.

Instrumental values

The preferred means of behavior used to obtain desired goals.

Justice

Four major tenets:

(1) All individuals should be treated equally

(2) Justice is served when all persons have equal opportunities and advantages

(3) Fair decision practices, procedures, and agreements among parties should be practiced

(4) Punishment is served to someone who inflicts harm.

Moral entrepreneur

Someone who creates a new ethical norm.

Normative ethics

The field of ethics concerned with our asking how we *should* and *ought* to live and act.

Rights

Legal rights are entitlements limited to a particular legal system and jurisdiction, while moral rights are universal and based on norms in every society.

Servant Leader/Leadership

Involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare.

Stakeholder

Any group or individual who can affect or is affected by the achievement of an organization's objectives. The use of the term *stakeholder* has become commonplace in organizations.

Stakeholder management

The systematic identification, analysis, planning, and implementation of actions designed to engage with stakeholders.

Stewardship

Concerned with empowering followers to make decisions and gain control over their work.

Terminal values

Desired goals, objectives, or end states that individuals wish to pursue.

Virtue ethics

Grounded in one's character, focusing on the type of person one ought to be.

Summary of Learning Outcomes

5.2 Ethics and Business Ethics Defined

1. What are ethics and business ethics?

A goal of the chapter is to present ethical principles, guidelines, and questions that inform our individual decision-making and influence actions we can take regarding questionable ethical situations and dilemmas. We also present and illustrate how business leaders, corporations, and organizations internationally have responded and are responding to questionable ethical problems with the environment in their communities through responsible corporate governance and alliance with concerned stakeholders. Ethics is both local and global; it begins with the individual, moves to the organizational, and extends to international and global levels of societies.

5.3 Dimensions of Ethics: The Individual Level

2. What types of values motivate ethics at the individual level?

Ethics at an individual level may seem to involve only the individual, but it is a holistic process. There may be high pressure from coworkers, managers, or any other constituent of business culture to be unethical. Individuals may hate such pressures and tend to work to avoid the dilemmas.

5.4 Ethical Principles and Responsible Decision-Making

3. What major ethical principles can guide individuals and organizations?

There are many approaches for both individuals and organizations regarding ethical principles. They are utilitarianism; universalism, a duty-based approach; a rights approach, which takes a moral and legal approach; justice; virtue; common good; and ethical relativism.

5.5 Leadership: Ethics at the Organizational Level

4. Why is ethical leadership important in organizations?

After the failures of Enron and other organizations, people have started emphasizing the concept of ethical leadership. An organization can incorporate ethical practices only if its leaders enforce ethical values within the organization. While such basic concepts of ethics such as being honest are crucial to ethical leadership, a modern approach is to take the servant leadership approach, where the leader serves the interests of all stakeholders in an ethical manner.

5.6 Ethics, Corporate Culture, and Compliance

5. What are the differences between values-based ethics and compliance in organizations?

A compliance-based ethical approach is simple and direct. It provides a basic integrity to the participant since it is spelled out in clear terms. If the individual or organization exhibits destructive behaviors, their rights can be restricted. An integrity-based ethics

code fills the receiver with demands based on the highest expectations.

5.7 Corporate Social Responsibility (CSR)

6. What value do CSR (corporate social responsibility) programs offer to organizations and society?

Corporate social responsibility is about an organization taking responsibility for the impacts of its decisions and activities on all aspects of society, the community, and the environment. Corporate social responsibility is about contributing to the health and welfare of society and operating transparently and ethically. More importantly, this way of operating should be embedded in the business rather than an afterthought.

5.8 Ethics Around the Globe

7. What are ethical issues we encounter in the global environment?

Some of the most common ethical issues organizations encounter globally include outsourcing, working standards and conditions, workplace diversity and equal opportunity, child labor, trust and integrity, supervisory oversight, human rights, religion, the political arena, the environment, bribery, and corruption.

5.9 Emerging Trends in Ethics, CSR, and Compliance

8. Identify forecasts about contemporary ethical and corporate social responsibility issues.

Among the emerging issues around ethics are harassment in the era of #MeToo, organizations and individuals are more accepting of their roles in assisting with such things as natural disasters and national emergencies. Finally, there is increasing attention to issues of compliance and governance to ensure that organizations meet their stated ethical standards.

? Chapter Review Questions

1. What is the difference between ethics and business ethics?
2. What is normative ethics?
3. Why are values an important element of ethics for individuals and organizations?
4. What are the differences between instrumental and terminal values?
5. Can an individual be ethical without using the ethical principles described in the chapter? Explain.
6. Identify major classical ethical principles.
7. Differentiate between the principle of rights and utilitarianism and between justice and universalism.
8. Why is leadership important for ethical conduct in corporations?
9. Identify two types of ethical leaders and the importance of each role.
10. What is the difference between ethics and compliance in organizations?
11. What is CSR, and why is it important?
12. What is stakeholder management?
13. What is the difference between stakeholders and stockholders?
14. What is different about ethics in a global or international context and ethics in a national context or setting?
15. What are some global issues that corporations must face today, and why are these important?
16. Identify some contemporary ethical and compliance trends currently affecting corporations, employees, and individuals.
17. What is a moral entrepreneur?
18. Does ethics pay? Explain.
19. After reading this chapter, what major insights do you have about ethics and CSR?

Management Skills Application Exercises

1. What are some advantages and disadvantages of leaders, managers, and employees having and working with a principle-centered approach (using some ethical principles in the chapter) rather than taking a “come what may,” approach based on trust in luck, circumstance, and chance?
2. Would you rather work for a company that takes a stakeholder or stockholder approach in its dealings with customers, employees, suppliers, and other constituencies in its network? Explain.
3. What are some principles (from the chapter) that leaders and managers can use to guide their actions in ethical ways?

4. What can organizational managers and leaders learn regarding organizational cultures to inspire and motivate employees to do the right thing in their work?
5. What type of leaders and leadership styles and practices often lead to problems with employees, customers, and other stakeholders and stockholders?
6. Describe how a leader, manager, and employee might think and act differently if their organization seriously adopted and practiced doing business with a corporate social responsibility mindset.
7. What are some concerns that have ethical implications that a leader, manager, or employee might have when conducting business internationally or globally?
8. After reading the section in the chapter on future ethical and compliance, what top two or three things do you think organizational leaders and managers would want to act on preparing for now? Why?

Managerial Decision Exercises

1. You are a manager, and your boss—who is also a friend—has reprimanded a fellow employee (also a friend) in ways that are demonstrably unfair and unethical but not illegal. That employee has confided in you with the facts, and you agree. The employee asks you not to mention anything to the boss but to go with her to human resources for support while she reports him for those actions. What would you do, if anything, and why? Explain.
2. One of your direct reports thinks that you are not acting responsibly or in the best interests of the company with him or the department in which you work. The direct report has informed you that your communication and work style are lacking and causing problems with others in the department. You are upset over this news and realize it could cause you problems with your boss and those above. What would you do, when, why, and how?
3. You learn that a woman in your department has complained about sexually improper advances toward her by your boss and another more senior person above that boss. You know the woman but not well. She may be right in this instance. You have heard rumors that she often exaggerates and sometimes can't be trusted. You don't particularly like her and are concerned about your own reputation if she's wrong. What would you do and why?
4. Your department boss wants you to select a few others in your organization to explore adopting corporate social responsibility practices. Some of your friends think that CSR isn't effective and in fact wastes the resources and time of those who get involved. To take on this assignment would require time out of doing your own work. However, you have noticed that your organization's leadership isn't all that responsible and responsive to employees and many customers. Maybe adopting more ethical standards and practices could improve business and some of the questionable leaders' behaviors. What would you do and why?

Critical Thinking Case

Wells Fargo

The recent Wells Fargo crisis over mismanaging customer relationships and fraudulently implementing illegal and unethical sales practices with trusted clients has cost the company in fines, lost business, and the resignation of the CEO. The following online sources offer a narrative and factual source of what happened, when, to whom, and why. Use these sources to answer and provide evidence for the following questions to present to the class:

1. What were the sources and causes of problems in the first place? Explain.
2. Who were some of the primary decision makers that led to the illegal sales activities?
3. What were these individuals' motives and motivations?
4. How were the illegal and fraudulent activities discovered?
5. Who was to blame?
6. What unethical activities occurred before the illegal actions took place?
7. What would you have done, if anything, had you been one of the sales professionals pressured to engage in unethical, illegal practices there?
8. How would a stakeholder approach, if taken by the company's top leaders and board of directors, have possibly prevented the crisis?

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CHAPTER OVERVIEW

6: Managerial Decision-Making

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6.1: Biblical Insight



Applying the Bible to Business

Let’s look at James 1:5: “If any of you lacks wisdom, you should ask God, who gives generously to all without finding fault, and it will be given to you.” This Bible verse shows us that no matter what problems we face, we can go to the Lord and ask Him for wisdom and understanding. It also says He will give to “all” without finding fault. This means we don’t earn wisdom; we just need to ask for it. He has promised to give us all that is needed for the task.

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6.2: Introduction

Learning Objectives

After reading this chapter, you should be able to answer these questions:

1. What are the basic characteristics of managerial decision-making?
2. What are the two systems of decision-making in the brain?
3. What is the difference between programmed and nonprogrammed decisions?
4. What barriers exist that make effective decision-making difficult?
5. How can a manager improve the quality of her individual decision-making?
6. What are the advantages and disadvantages of group decision-making, and how can a manager improve the quality of group decision-making?

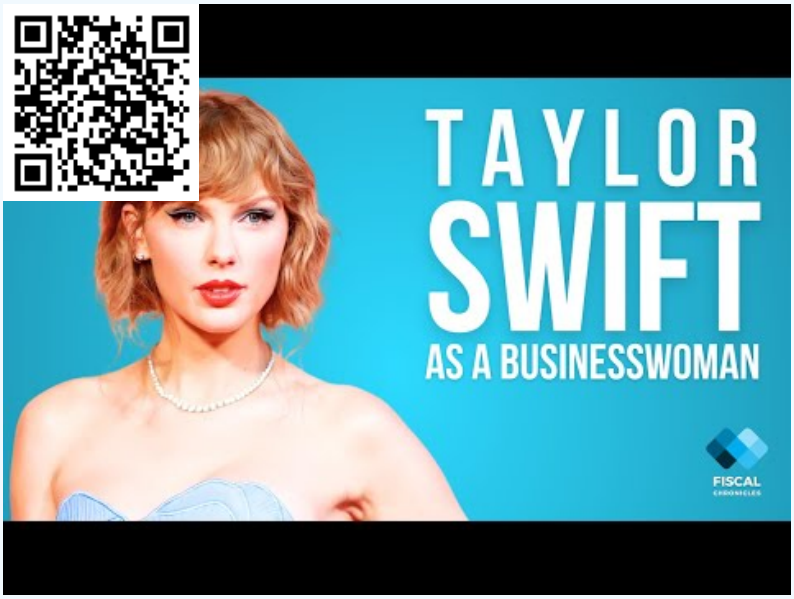
Case Study: Taylor Swift 6.2.1

Superstar Taylor Smith became a billionaire through hard work and good decision-making. More than $500 million of Swift's fortune is from music royalties and touring. She made an estimated $190 million after taxes from the first leg of the Eras tour and another $35 million from the first two weeks of screenings of the corresponding concert film, Taylor Swift: The Eras Tour, which became the highest-grossing concert movie in history (Mercuri, 2024).

Meanwhile, another $500 million of her earnings came from the increasing value of her music catalog. Her masters (Swift's first six albums) were infamously purchased in 2019 by Scooter Braun and eventually sold to Shamrock Capital for $300 million in 2020. When Swift was fifteen years old, she signed a music contract without understanding the term "loyalty." Swift later came to understand her contract greatly deprived her of most of her work earnings. So, the pop star decided to join Universal Music Group's Republic Records, a deal that would give the superstar complete ownership over songwriting and recordings. This insightful decision-making would soon catapult Taylor Swift to Forbes's billionaires list. On April 19, 2023, Swift released her 11th studio album, *The Tortured Poets Department*, which also added to her substantial earnings. Swift announced the new record during her Album of the Year acceptance speech at the 2024 Grammy Awards (Mercuri, 2024).

While becoming a billionaire, the pop star made a significant financial impact on the NFL. Swift created a brand value equivalent of $331.5 million for the Chiefs and the league, according to data from Apex Marketing Group. That figure was derived from print, digital, radio, TV, highlights, and social media mentioning Swift during the football season. To add to all of this, Swift was named Time Magazine's 2023 Person of the Year. (Mercuri, 2024).





EXPLORING MANAGERIAL CAREER

Up, Up, and Away: How Stephanie Korey and Jen Rubio founded their luggage company

Jen Rubio and Stephanie Korey faced a number of important decisions in starting their luggage company, Away—beginning with the decision to start a business! That decision came about after Rubio's luggage broke on a trip. She found it frustrating that all the luggage options were either inexpensive ($100 or less) but low quality or high quality but incredibly expensive ($400 and above). There was no mid-range option. So, in 2015 Rubio and her friend Stephanie Korey began researching the luggage industry. They found that much of the reason for the high prices on quality luggage was how it was distributed and sold through specialty retail shops and department stores. If they opted instead for a model in which they sold directly to consumers, they could provide high-quality luggage at more of a midrange ($200-$300) price. After considerable research, the two were convinced they had an idea worth pursuing. Rubio and Korey settled on the company name "Away," intended to invoke the pleasure of traveling.

Both of the founders had prior experience working for a start-up in the e-commerce space (Warby Parker), which helped them with making sound choices. Rubio's background was more in branding and marketing, while Korey's was in operations and supply chain management—so each was able to bring great expertise to various aspects of the business. They raised money initially from friends and family, but within a few months they sought venture capital funding to ensure that they had enough money to get off to a successful start.

A big decision that Rubio and Korey had to make fairly early in the process of establishing their business was to settle on an initial design for the product. This decision required extensive marketing and consumer research to understand customer needs and wants. They asked hundreds of people what they liked about their existing luggage, and what they found most irritating about their existing luggage. They also contracted with a two-person design team to help create the first prototype. This research and development ultimately led to the design of an attractive hard case that is surprisingly lightweight. It also boasts extremely high-quality wheels (four of them, not two) and high-quality zippers. As a bonus, the carry-on includes a built-in battery for charging phones and other devices.

The two founders also had to choose a partner to manufacture their product. Because their product had a hard, polycarbonate shell, Rubio and Korey discovered that manufacturing in the United States was not a viable option—the vast majority of luggage manufacturers using a polycarbonate shell were based in Asia. They researched a number of possible business partners and asked lots of questions. In addition, they eventually visited all of the factories on their list of options to see what they were actually like. This was an important piece of research, because the companies that looked best on paper didn't always turn out to be the best when they visited in person. Rubio and Korey ended up working with a manufacturing partner in China that also produces luggage for many high-end brands, and they have been extremely pleased with the partnership. They continue to devote time to building and maintaining that relationship, which helps to avoid issues and problems that might otherwise come up.

By the end of 2015, Rubio and Korey had developed their first product. Because the luggage was not going to be available in time for the holiday shopping season, they decided to allow customers to preorder the luggage. To drum up interest, the duo engaged in a unique storytelling effort. They interviewed 40 well-respected members of the creative community about their travel experiences and created a hardcover book of travel memoirs called *The Places We Return To*. Not only was the book interesting and engaging, it also made lots of people in the creative community aware of Away luggage. Starting in November 2015, the travel memoir book was available for free with the purchase of a gift card that could be redeemed in February 2016 for luggage. The book project generated tremendous advance interest in the product, and the 1,200 printed copies sold out. Away generated $12 million in first-year sales.

Stephanie Corey and Jen Rubio faced many important and novel decisions in initially developing and building their business. They have been successful in part because they made those decisions wisely—by relying on shared knowledge, expertise, and lots of research before reaching a decision. They will continue to face many decisions, big and small. They have expanded their product line from one piece of luggage to four, with more luggage—and other travel accessories—in the works for the future. Their company, which is based in New York, has grown to over 60 employees in the first two years. These employees include the two design-team members who were contracted to help create their first prototype; Rubio and Korey appreciated working with them so much, they offered them full-time positions with Away. Each new hire represents new decisions—decisions about what additional work needs to be done and who they should hire to do it. Each new product also brings additional decisions—but it seems Rubio and Korey have positioned themselves (and their business) well for future successes.

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*Photo: Taylor Swift at the 2023 MTV Video Music Awards 13 September 2023 author iHeartRadioCA

Managers and business owners—like Jen Rubio and Stephanie Korey—make decisions on a daily basis. Some are big, like the decision to start a new business, but most are smaller decisions that go into the regular running of the company and are crucial to its long-term success. Some decisions are predictable, and some are unexpected. In this chapter we look at important information about decision-making that can help you make better decisions and, ultimately, be a better manager.

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6.3: Overview of Managerial Decision-Making

Learning Objectives

1. Understand the basic characteristics of decision making.

Decision-making is the action or process of thinking through possible options and selecting one.

It is important to recognize that managers are continually making decisions and that the quality of their decision-making has an impact—sometimes quite significant—on the effectiveness of the organization and its stakeholders. Stakeholders are all the individuals or groups that are affected by an organization (such as customers, employees, shareholders, etc.).

Members of the top management team regularly make decisions that affect the future of the organization and all its stakeholders, such as deciding whether to pursue a new technology or product line. A good decision can enable the organization to thrive and survive long-term, while a poor decision can lead a business into bankruptcy. Managers at lower levels of the organization generally have a smaller impact on the organization's survival but can still have a tremendous impact on their department and its workers. Consider, for example, a first-line supervisor who is charged with scheduling workers and ordering raw materials for her department. Poor decision-making by lower-level managers is unlikely to drive the entire firm out of existence, but it can lead to many adverse outcomes, such as:

- reduced productivity if there are too few workers or insufficient supplies,
- increased expenses if there are too many workers or too many supplies, particularly if the supplies have a limited shelf life or are costly to store, and
- frustration among employees, reduced morale, and increased turnover (which can be costly for the organization) if the decisions involve managing and training workers.

Deciding When to Decide

While some decisions are simple, a manager's decisions are often complex ones that involve a range of options and uncertain outcomes. When deciding among various options and uncertain outcomes, managers need to gather information, which leads them to another necessary decision: how much information is needed to make a good decision? Managers frequently make decisions without complete information; indeed, one of the hallmarks of an effective leader is the ability to determine when to hold off on a decision and gather more information and when to make a decision with the information at hand. Waiting too long to make a decision can be as harmful to the organization as reaching a decision too quickly. Failing to react quickly enough can lead to missed opportunities, yet acting too quickly can lead to organizational resources being poorly allocated to projects with no chance of success. Effective managers must decide when they have gathered enough information and must be prepared to change course if additional information becomes available that makes it clear that the original decision was a poor one. For individuals with fragile egos, changing course can be challenging because admitting to a mistake can be harder than forging ahead with a bad plan. Effective managers recognize that given the complexity of many tasks, some failures are inevitable. They also realize that it's better to minimize a bad decision's impact on the organization and its stakeholders by recognizing it quickly and correcting it.

What's the Right (Correct) Answer?

It's also worth noting that making decisions as a manager is not at all like taking a multiple-choice test: with a multiple-choice test, there is always one right answer. This is rarely the case with management decisions. Sometimes a manager is choosing between multiple good options, and it's not clear which will be the best. Other times there are multiple bad options, and the task is to minimize harm. Often there are individuals in the organization with competing interests, and the manager must make decisions knowing that someone will be upset no matter what decision is reached.

What's the Right (Ethical) Answer?

Sometimes managers are asked to make decisions that go beyond just upsetting someone—they may be asked to make decisions in which harm could be caused to others. These decisions have ethical or moral implications. Ethics and morals refer to our beliefs about what is right vs. wrong, good vs. evil, virtuous vs. corrupt. Implicitly, ethics and morals relate to our interactions with and impact on others—if we never had to interact with another creature, we would not have to think about how our behaviors affected

other individuals or groups. All managers, however, make decisions that impact others. It is, therefore, important to be mindful about whether our decisions have a positive or a negative impact. “Maximizing shareholder wealth” is often used as a rationalization for placing the importance of short-term profits over the needs of others who will be affected by a decision—such as employees, customers, or local citizens (who might be affected, for example, by environmental decisions). Maximizing shareholder wealth is often a short-sighted decision, however, because it can harm the organization’s financial viability in the future.1 Bad publicity, customers boycotting the organization, and government fines are all possible long-term outcomes when managers make choices that cause harm in order to maximize shareholder wealth. More importantly, increasing the wealth of shareholders is not an acceptable reason for causing harm to others.

As you can see from these brief examples, management is not for the faint of heart! It can, however, be incredibly rewarding to be in a position to make decisions that have a positive impact on an organization and its stakeholders. We see a great example of this in the Sustainability and Responsible Management box.

✔ Sustainability and Responsible Management: Brewing Sustainable Success

The focus of a manager or a business owner is often primarily on doing well (making a profit). Sometimes, though, organizational leaders choose to pursue two big goals at once: doing well and simultaneously doing good (benefiting society in some way). Why? Generally, because they think it’s an important thing to do. The business provides an opportunity to pursue another goal that the founders, owners, or managers are also passionate about. In the case of New Belgium Brewing, the company’s co-founders, Jeff Lebesch and Kim Jordan, were passionate about two things: making great beer and environmental stewardship. So it should come as no surprise that their brewery is dedicated to reducing its environmental footprint. The brewery has created a culture that fosters sustainability in a wide range of ways, such as by giving employees a bicycle on their one-year anniversary as a way to encourage them to ride bicycles to work. The organization is also active in advocacy efforts, such as the “Save the Colorado” (river) campaign, and it works hard to promote responsible decision-making when it comes to environmental issues. In fact, in 1999, following an employee vote, the brewery began to purchase all of its electricity from wind power, even though it was more expensive than electricity from coal-burning power plants (which meant reduced profitability and less money for employee bonuses).

While the brewery still relies primarily on wind power, it also now generates a portion of its electricity onsite—some from rooftop solar panels and even more from biogas, the methane gas byproduct that is created by microbes in the brewery’s water treatment plant. The company cleans the wastewater generated from beer production, and in doing so, it generates biogas, which is captured and used for energy to help run the brewery.

Brewing is water intensive, so New Belgium works hard to reduce water consumption and to recycle the water that it does use. The company also reduces other types of waste by selling used grain, hops, and yeast to local ranchers for cattle feed. The company, which has been employee-owned since 2013, also works with the local utility through a Smart Meter program to reduce their energy consumption at peak times.

All of these efforts at doing good must come at a cost, right? Actually, research shows that companies that are committed to sustainability have superior financial performance, on average, relative to those that are not. In coming up with creative ways to reduce, reuse, and recycle, employees often also find ways to save money (like using biogas). In addition, organizations that strive to do good are often considered attractive and desirable places to work (especially by people who have similar values) and are also valued by the surrounding communities. As a result, employees in those organizations tend to be extremely committed to them, with high levels of engagement, motivation, and productivity. Indeed, it seems clear that the employees at the New Belgium Brewery are passionate about where they work and what they do. This passion generates value for the organization and proves that it is, in fact, possible to do well while having also made the decision to do good. And in the case of New Belgium Brewery, that means working to protect the environment while also making delicious beer.

Discussion Questions

1. What challenges does New Belgium Brewery face in pursuing environmental goals?
2. Can you think of any other examples of companies that try to “do good” while also doing well?
3. Would you like to work for an organization that is committed to something more than just profitability, even if it meant your salary or bonus would be smaller?

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Concept Check

1. What are some positive outcomes of decision-making for an organization? What are some possible negative outcomes?
2. How is managerial decision-making different from a multiple-choice test?
3. In addition to the owners of a business, who are some of the other stakeholders that managers should consider when making decisions?

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6.4: How the Brain Processes Information to Make Decisions - Reflective and Reactive Systems

Learning Objectives

1. Understand the two systems of decision-making in the brain.

The human brain processes information for decision-making using one of two routes: a reflective system and a reactive (or reflexive) system (Facione & Facione, 2007; Lieberman, 2003). The **reflective system** is logical, analytical, deliberate, and methodical, while the **reactive system** is quick, impulsive, and intuitive, relying on emotions or habits to provide cues for what to do next. Research in neuropsychology suggests that the brain can only use one system at a time for processing information and that the two systems are directed by different parts of the brain. The prefrontal cortex is more involved in the reflective system, and the basal ganglia and amygdala (more primitive parts of the brain, from an evolutionary perspective) are more involved in the reactive system (Darlow & Sloman, 2010).

Reactive Decision-Making

We tend to assume that the logical, analytical route leads to superior decisions, but whether this is accurate depends on the situation. The quick, intuitive route can be lifesaving; when we suddenly feel intense fear, a fight-or-flight response kicks in that leads to immediate action without methodically weighing all possible options and their consequences. Additionally, experienced managers can often make decisions very quickly because experience or expertise has taught them what to do in a given situation. These managers might not be able to explain the logic behind their decision and will instead say they just went with their “gut” or did what “felt” right. Because the manager has faced a similar situation in the past and has figured out how to deal with it, the brain shifts immediately to the quick, intuitive decision-making system (Gladwell, 2005).

Reflective Decision-Making

The quick route is not always the best decision-making path to take, however. When faced with novel and complex situations, it is better to process available information logically, analytically, and methodically. As a manager, you need to think about whether a situation requires not a fast, “gut” reaction but some serious thought prior to making a decision. It is especially important to pay attention to your emotions because strong emotions can make it difficult to process information rationally. Successful managers recognize the effects of emotions and know to wait and address a volatile situation after their emotions have calmed down. Intense emotions—whether positive or negative—tend to pull us toward the quick, reactive route of decision-making. Have you ever made a large “impulse” purchase that you were excited about, only to regret it later? This speaks to the power our emotions exert on our decision-making. Big decisions should generally not be made impulsively but reflectively.

The Role of Emotions

Being aware of the role emotions play in decision-making does not mean that we should ignore them. Emotions can serve as powerful signals about what we should do, especially in situations with ethical implications. You can read more about this particular type of decision-making in the *Ethics in Practice* box later in this chapter. Thinking through how we feel about the possible options and why we feel that way can greatly enhance our decision-making (George, 2000). Effective decision-making, then, relies on both logic *and* emotions. For this reason, the concept of emotional intelligence has become popular as a characteristic of effective managers. **Emotional intelligence** is the ability to recognize, understand, pay attention to, and manage one’s own emotions and the emotions of others. It involves self-awareness and self-regulation—essentially, this is a toggling back and forth between emotions and logic so that we analyze and understand our own emotions and then exert the necessary control to manage them as appropriate for the situation. Emotional intelligence also involves empathy—the ability to understand other peoples’ emotions (and an interest in doing so). Finally, emotional intelligence involves social skills to manage the emotional aspects of relationships with others. Managers who are aware of their own emotions can think through what their emotions mean in a given situation and use that information to guide their decision-making. Managers who are aware of the emotions of others can also utilize that information to help groups function more effectively and engage in better group decision-making. While emotional

intelligence seems to come easily to some people, it is something that we can develop and improve on with practice. A model of emotional intelligence is presented in Exhibit 6.2.

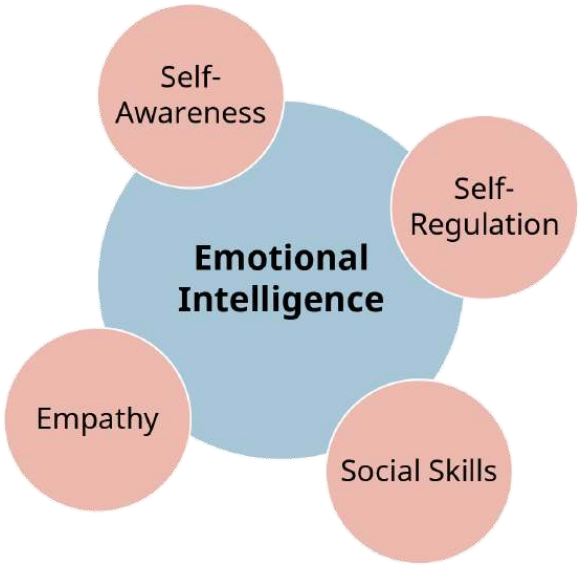


Exhibit 6.2 Emotional Intelligence (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

? Concept Check

1. Explain the two systems used by the brain in decision-making.
2. What is emotional intelligence, and why is it important for decision-making?

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6.5: Programmed and Nonprogrammed Decisions

Learning Objectives

1. Understand the difference between programmed and non-programmed decisions.

Because managers have limited time and must use that time wisely to be effective, it is important for them to distinguish between decisions that can have structure and routine applied to them (called programmed decisions) and decisions that are novel and require thought and attention (non-programmed decisions).

Programmed Decisions

Programmed decisions are those that are repeated over time and for which an existing set of rules can be developed to guide the process. These decisions might be simple or complex, but the criteria that go into making the decision are all known or can at least be estimated with a reasonable degree of accuracy. For example, deciding how many raw materials to order should be a programmed decision based on anticipated production, existing stock, and anticipated length of time for the delivery of the final product. As another example, consider a retail store manager developing the weekly work schedule for part-time employees. The manager must consider how busy the store is likely to be, taking into account seasonal fluctuations in business. Then, she must consider the availability of the workers by taking into account requests for vacation and for other obligations that employees might have (such as school). Establishing the schedule might be complex, but it is still a programmed decision: it is made on a regular basis based on well-understood criteria, so structure can be applied to the process. For programmed decisions, managers often develop **heuristics**, or mental shortcuts, to help reach a decision. For example, the retail store manager may not know how busy the store will be the week of a big sale but might routinely increase staff by 30% every time there is a big sale (because this has been effective in the past). Heuristics are efficient—they save time for the decision-maker by generating an adequate solution quickly. Heuristics don't necessarily yield the optimal solution—deeper cognitive processing may be required for that. However, they generally yield a good solution. Heuristics are often used for programmed decisions because experience in making the decision over and over helps the decision maker know what to expect and how to react. Programmed decision-making can also be taught easily to another person. The rules and criteria, and how they relate to outcomes, can be clearly laid out so that a good decision can be reached by the new decision maker. Programmed decisions are also sometimes referred to as *routine* or *low-involvement* decisions because they don't require in-depth mental processing to reach a decision. High- and low-involvement decisions are illustrated in Exhibit 6.3.

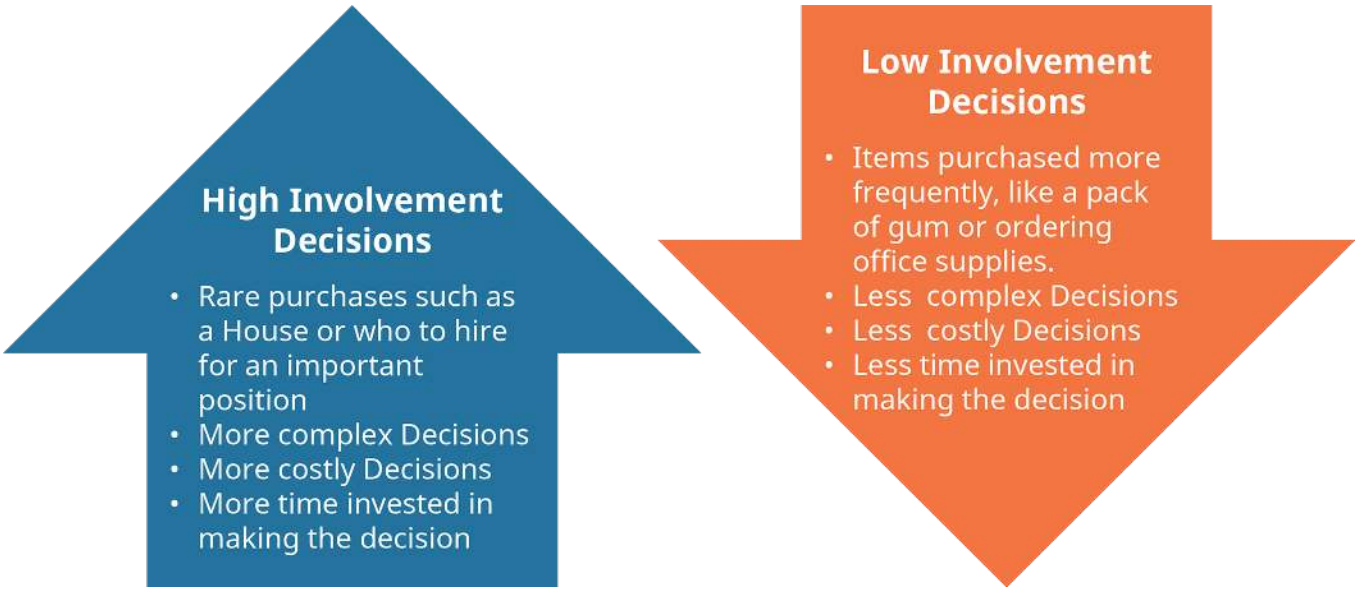


Exhibit 6.3 High-Involvement and Low-Involvement Decisions. (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Non-programmed Decisions

In contrast, **non-programmed** decisions are novel, unstructured decisions that are generally based on criteria that are not well-defined. With non-programmed decisions, information is more likely to be ambiguous or incomplete, and the decision maker may need to exercise some thoughtful judgment and creative thinking to reach a good solution. These are also sometimes referred to as *non-routine* decisions or as *high-involvement* decisions because they require greater involvement and thought on the part of the decision maker. For example, consider a manager trying to decide whether or not to adopt a new technology. There will always be unknowns in situations of this nature. Will the new technology really be better than the existing technology? Will it become widely accepted over time, or will some other technology become the standard? The best the manager can do in this situation is to gather as much relevant information as possible and make an educated guess as to whether the new technology will be worthwhile. Clearly, non=programmed decisions present the greater challenge.

The Decision-Making Process Although decisions makers can use mental shortcuts with programmed decisions, they should use a systematic process with non-programmed decisions. The decision-making process is illustrated in Exhibit 6.4 and can be broken down into a series of six steps, as follows:

1. Recognize that a decision needs to be made.
2. Generate multiple alternatives.
3. Analyze the alternatives.
4. Select an alternative.
5. Implement the selected alternative.
6. Evaluate its effectiveness.

Although these steps may seem straightforward, individuals often skip steps or spend too little time on some steps. In fact, sometimes people will refuse to acknowledge a problem (Step 1) because they aren't sure how to address it. We'll discuss the steps more later in the chapter when we review ways to improve the quality of decision-making.

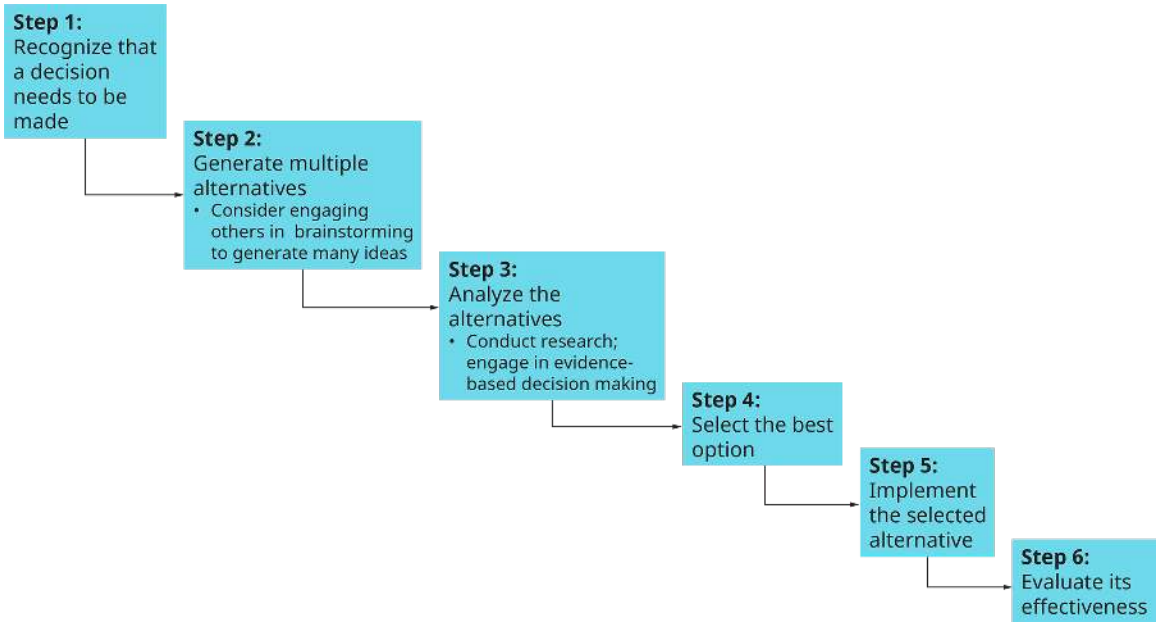


Exhibit 6.4 The Decision-Making Process. (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

You may notice similarities between the two systems of decision-making in our brains and the two types of decisions (programmed and non-programmed). Non-programmed decisions will generally need to be processed via the reflective system in our brains for us to reach a good decision. But with programmed decisions, heuristics can allow decision makers to switch to the quick, reactive system and then move along quickly to other issues.

Concept Check

1. Give an example of a programmed decision a manager might face.
2. Give an example of a non-programmed decision.
3. What are heuristics, and why are they helpful?
4. How are programmed and non-programmed decisions connected to the reflective and reactive systems in the brain?

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6.6: Barriers to Effective Decision-Making

Learning Objectives

1. Understand the barriers that exist that make effective decision-making difficult.

There are a number of barriers to effective decision-making. Effective managers are aware of these potential barriers and try to overcome them as much as possible.

Bounded Rationality

While we might like to think that we can make completely rational decisions, this is often unrealistic given the complex issues faced by managers. Nonrational decision-making is common, especially with non-programmed decisions. Since we haven't faced a particular situation previously, we don't always know what questions to ask or what information to gather. Even when we have gathered all the possible information, we may not be able to make rational sense of it all or accurately forecast or predict the outcomes of our choice. **Bounded rationality** is the idea that for complex issues, we cannot be completely rational because we cannot fully grasp all the possible alternatives, nor can we understand all the implications of every possible alternative. Our brains have limitations in terms of the amount of information they can process. Similarly, as was alluded to earlier in the chapter, even when managers have the cognitive ability to process all the relevant information, they often must make decisions without first having time to collect all the relevant data—their information is incomplete.

Escalation of Commitment

Given the lack of complete information, managers don't always make the right decision initially, and it may not be clear that a decision was a bad one until after some time has passed. For example, consider a manager who had to choose between two competing software packages that her organization will use on a daily basis to enhance efficiency. She initially chooses the product that was developed by the larger, more well-established company, reasoning that they will have greater financial resources to invest in ensuring that the technology is good. However, after some time, it becomes clear that the competing software package is going to be far superior. While the smaller company's product could be integrated into the organization's existing systems at little additional expense, the larger company's product will require a much greater initial investment, as well as substantial ongoing costs for maintaining it. At this point, however, let's assume that the manager has already paid for the larger company's (inferior) software. Will she abandon the path that she's on, accept the loss of the money that's been invested so far, and switch to the better software? Or will she continue to invest time and money into trying to make the first product work? **Escalation of commitment** is the tendency of decision-makers to remain committed to poor decisions, even when doing so leads to increasingly negative outcomes. Once we commit to a decision, we may find it difficult to reevaluate that decision rationally. It can seem easier to "stay the course" than to admit (or to recognize) that a decision was poor. It's important to acknowledge that not all decisions are going to be good ones, in spite of our best efforts. Effective managers recognize that progress down the wrong path isn't really progress, and they are willing to reevaluate decisions and change direction when appropriate.

Time Constraints

Managers often face time constraints that can make effective decision-making a challenge. When there is little time available to collect information and to rationally process it, we are much less likely to make a good non=programmed decision. Time pressures can cause us to rely on heuristics rather than engage in deep processing. While heuristics save time, however, they don't necessarily lead to the best possible solution. The best managers are constantly assessing the risks associated with acting too quickly against those associated with not acting quickly enough.

Uncertainty

In addition, managers frequently make decisions under conditions of uncertainty—they cannot know the outcome of each alternative until they've actually chosen that alternative. Consider, for example, a manager who is trying to decide between one of two possible marketing campaigns. The first is more conservative but is consistent with what the organization has done in the past. The second is more modern and edgier and might bring much better results . . . or it might be a spectacular failure. The manager making the decision will ultimately have to choose one campaign and see what happens without ever knowing what the results

would have been with the alternate campaign. That uncertainty can make it difficult for some managers to make decisions because committing to one option means forgoing other options.

Personal Biases

Our decision-making is also limited by our own biases. We tend to be more comfortable with ideas, concepts, things, and people that are familiar to us or similar to us. We tend to be less comfortable with that which is unfamiliar, new, and different. One of the most common biases that we have, as humans, is the tendency to like other people who we think are similar to us (because we like ourselves) (Aberson et al., 2000). While these similarities can be observable (based on demographic characteristics such as race, gender, and age), they can also be a result of shared experiences (such as attending the same university) or shared interests (such as being in a book club together). This "similar to me" bias and preference for the familiar can lead to a variety of problems for managers: hiring less-qualified applicants because they are similar to the manager in some way, paying more attention to some employees' opinions, and ignoring or discounting others, choosing a familiar technology over a new one that is superior, sticking with a supplier that is known over one that has better quality, and so on.

It can be incredibly difficult to overcome our biases because of the way our brains work. The brain excels at organizing information into categories, and it doesn't like to expend the effort to re-arrange once the categories are established. As a result, we tend to pay more attention to information that confirms our existing beliefs and less attention to information that is contrary to our beliefs, a shortcoming that is referred to as **confirmation bias** (Kolbert, 2017).

In fact, we don't like our existing beliefs to be challenged. Such challenges feel like a threat, which tends to push our brains toward the reactive system and prevent us from being able to logically process the new information via the reflective system. It is hard to change people's minds about something if they are already confident in their convictions. So, for example, when a manager hires a new employee who she really likes and is convinced is going to be excellent, she will tend to pay attention to examples of excellent performance and ignore examples of poor performance (or attribute those events to things outside the employee's control). The manager will also tend to trust that employee and therefore accept their explanations for poor performance without verifying the truth or accuracy of those statements. The opposite is also true; if we dislike someone, we will pay attention to their negatives and ignore or discount their positives. We are less likely to trust them or believe what they say at face value. This is why politics tend to become very polarized and antagonistic within a two-party system. It can be very difficult to have accurate perceptions of those we like and those we dislike. The effective manager will try to evaluate situations from multiple perspectives and gather multiple opinions to offset this bias when making decisions.

Conflict

Finally, effective decision-making can be difficult because of conflict. Most individuals dislike conflict and will avoid it when possible. However, the best decision might be one that is going to involve some conflict. Consider a manager who has a subordinate who is often late to work, causing others to have to step away from their responsibilities in order to cover for the late employee. The manager needs to have a conversation with that employee to correct the behavior, but the employee is not going to like the conversation and may react in a negative way. Both of them are going to be uncomfortable. The situation is likely to involve conflict, which most people find stressful. Yet, the correct decision is still to have the conversation even if (or especially if) the employee otherwise is an asset to the department.



Exhibit 6.5 Dante Disparte is the founder and CEO of Risk Cooperative and also coauthor of Global Risk Agility and Decision Making. He suggests that unforeseen and unanticipated risks are becoming more frequent and less predictable and are having a greater impact on more people at one time. Credit (New America/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

If the bad behavior is not corrected, it will continue, which is going to cause more problems in the workplace in the long run. Other employees may recognize that this behavior is allowed, and they may also start coming to work late or engaging in other negative behaviors. Eventually, some employees may become sufficiently frustrated that they look for another place to work. It's worth noting that in this situation, the best employees will find new jobs the most quickly. It's important for managers to recognize that while conflict can be uncomfortable (especially in the short term), there are times when it is necessary for the group, department, or organization to function effectively in the long run.

It is also helpful to think about conflict in terms of process conflict or relationship conflict (Jehn & Mannix, 2001). **Process conflict**, conflict about the best way to do something, can actually lead to improved performance as individuals explore various options together in order to identify superior solutions. **Relationship conflict** is conflict between individuals that is more personal and involves attacks on a person rather than an idea. This kind of conflict is generally harmful and should be quelled when possible. The harm from relationship conflict arises at least in part because feeling personally attacked will cause an individual to revert to the reactive system of the brain.

Effective managers should be particularly aware of the possibility of relationship conflict when giving feedback and should keep feedback focused on behaviors and activities (how things are done) rather than on the individual. Being aware of and dealing with relationship conflict points to why emotional intelligence and empathy are beneficial in organizational leaders. Such leaders are more likely to be attentive to the harmful consequences of relationship conflict. The "Managerial Leadership" segment shows how one CEO encourages empathetic collaboration and how that effort is proving beneficial.

✔ Managerial Leadership

Satya Nadella's Transformation of Microsoft

When Satya Nadella became the CEO of Microsoft in 2014, he set in motion a major transformation of the organization's culture. He wanted it to shift from a culture that valued "know-it-alls" to one that values "learn-it-all." Instead of employees feeling the need to prove that they were the smartest person in the room, he wanted them to become curious and effective listeners, learners, and communicators. Only through continual learning and collaboration with one another and with customers would Microsoft remain able to develop and provide great technology solutions.

One of Nadella's first mandates as CEO was to ask all the members of the top management team to read the book *Nonviolent Communication* by Marshall Rosenberg. The primary focus of the book is on empathetic communication—a kinder, gentler approach than Microsoft employees were accustomed to. Nadella believes that developing empathy leads to a heightened understanding of consumer needs and wants and an enhanced ability to develop better products and services through collaboration.

Nadella has also embraced diversity and inclusion initiatives, though he readily acknowledges that there is more to be done. This is, in part, an extension of his focus on empathy. However, it's also good business because increasing the diversity of

perspectives can help to drive innovation.

This cultural shift is reflected in Microsoft's new mission statement: "To empower every person and every organization on the planet to achieve more." Empowering every person includes Microsoft's own employees. Achieving diversity is particularly a challenge in an industry that is male-dominated, and Nadella admits that he has made mistakes based on his own biases. At a Women in Computing conference early in his tenure as CEO, Nadella suggested that women did not need to ask for raises when they deserved them; the system, he said, would work it out. He later admitted that he was wrong and used the mistake as a platform for making greater strides in this arena.

Senior management team meetings at Microsoft have apparently changed dramatically as a result of the culture change driven by Nadella. Previously, members felt the need to constantly prove that they knew all the right answers at team meetings. Nadella has established different norms; he seeks out honest opinions from team members and gives positive feedback on a regular basis. By moving the focus away from always being right and toward a focus of continual learning, the culture at Microsoft has become more collaborative, and employees are more willing to take risks to create something amazing. The culture shift seems to be paying off: Microsoft's products are being described as "cool" and "exciting," its cloud-computing platform is outperforming the competition, and its financial performance has improved dramatically. Transforming the culture of an organization is a massive undertaking, but Nadella's leadership of Microsoft clearly shows that it's a decision that can pay off.

Discussion Questions

1. Do you think a culture focused on learning makes sense for Microsoft? Why or why not?
2. What are the advantages of a culture that emphasizes empathetic communication? Can you think of any disadvantages?
3. The job of CEO means making big decisions that impact the entire organization—like deciding to change the culture. How do you think you prepare for that job?

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Concept Check

1. Explain the concept of confirmation bias.
2. List and describe at least three barriers to effective decision-making.
3. When is conflict beneficial, and when is it harmful? Why?

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6.7: Improving the Quality of Decision-Making

Learning Objectives

1. Understand how a manager can improve his or her individual decision making.

Managers can use a variety of techniques to improve their decision-making by making better-quality decisions or making decisions more quickly. Table 6.1 summarizes some of these tactics.

Types of decisions that managers can make for improvements.

Type of Decision	Technique	Benefit
Programmed Decisions	Heuristics (mental shortcuts)	Saves Time
	Satisficing (choosing the first acceptable solution)	Saves Time
Non-programmed Decisions	Systematically go through the six steps of the decision-making process	Improves quality
	Talk to other people	Improves quality; generates more options, reduces bias
	Be creative	Improves quality; generates more options
	Conduct research; engage in evidence-based decision-making	Improves quality
	Engage in critical thinking	Improves quality
	Think about the long-term implications	Improves quality
	Consider the ethical implications	Improves quality

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The Importance of Experience

An often overlooked factor in effective decision-making is experience. Managers with more experience have generally learned more and developed greater expertise that they can draw on when making decisions. Experience helps managers develop methods and heuristics to quickly deal with programmed decisions and helps them know what additional information to seek out before making a non-programmed decision.

Techniques for Making Better Programmed Decisions

In addition, experience enables managers to recognize when to minimize the time spent making decisions on issues that are not particularly important but must still be addressed. As discussed previously, heuristics are mental shortcuts that managers take when making programmed (routine, low-involvement) decisions. Another technique that managers use with these types of decisions is **satisficing**. When satisficing, a decision maker selects the first *acceptable* solution without engaging in additional effort to identify the *best* solution. We all engage in satisficing every day. For example, suppose you are shopping for groceries and you don't want to overspend. If you have plenty of time, you might compare prices and figure out the price by weight (or volume) to ensure that every item you select is the cheapest option. But if you are in a hurry, you might just select generic products, knowing that they are cheap enough. This allows you to finish the task quickly at a reasonably low cost.

Techniques for Making Better Non-programmed Decisions

For situations in which the quality of the decision is more critical than the time spent on the decision, decision-makers can use several tactics. As stated previously, non-programmed decisions should be addressed using a systematic process. We therefore

discuss these tactics within the context of the decision-making steps. To review, the steps include the following:

1. Recognize that a decision needs to be made.
2. Generate multiple alternatives.
3. Analyze the alternatives.
4. Select an alternative.
5. Implement the selected alternative.
6. Evaluate its effectiveness.

Step 1: Recognizing That a Decision Needs to Be Made

Ineffective managers will sometimes ignore problems because they aren't sure how to address them. However, this tends to lead to more and bigger problems over time. Effective managers will be attentive to problems and to opportunities and will not shy away from making decisions that could make their team, department, or organization more effective and more successful.

Step 2: Generating Multiple Alternatives

Often a manager only spends enough time on Step 2 to generate two alternatives and then quickly moves to Step 3 in order to make a quick decision. A better solution may have been available, but it wasn't even considered. It's important to remember that for non-programmed decisions, you don't want to rush the process. Generating many possible options will increase the likelihood of reaching a good decision. Some tactics to help with generating more options include talking to other people (to get their ideas) and thinking creatively about the problem.

Talk to other people

Managers can often improve the quality of their decision-making by involving others in the process, especially when generating alternatives. Other people tend to view problems from different perspectives because they have had different life experiences. This can help generate alternatives that you might not otherwise have considered. Talking through big decisions with a mentor can also be beneficial, especially for new managers who are still learning and developing their expertise; someone with more experience will often be able to suggest more options.

Be creative

We don't always associate management with creativity, but creativity can be quite beneficial in some situations. In decision-making, creativity can be particularly helpful when generating alternatives. **Creativity** is the generation of new or original ideas; it requires the use of imagination and the ability to step back from traditional ways of doing things and seeing the world. While some people seem to be naturally creative, it is a skill that you can develop. Being creative requires letting your mind wander and combining existing knowledge from past experiences in novel ways. Creative inspiration may come when we least expect it (in the shower, for example) because we aren't intensely focused on the problem—we've allowed our minds to wander. Managers who strive to be creative will take the time to view a problem from multiple perspectives, try to combine information in news ways, search for overarching patterns, and use their imaginations to generate new solutions to existing problems. We'll review creativity in more detail in Chapter 18.

Step 3: Analyzing Alternatives

When implementing Step 3, it is important to take many factors into consideration. Some alternatives might be more expensive than others, for example, and that information is often essential when analyzing options. Effective managers will ensure that they have collected sufficient information to assess the quality of the various options. They will also utilize the tactics described below: engaging in evidence-based decision-making, thinking critically, talking to other people, and considering long-term and ethical implications.

Do you have the best-quality data and evidence?

Evidence-based decision-making is an approach to decision-making that states that managers should systematically collect the best evidence available to help them make effective decisions. The evidence that is collected might include the decision maker's own expertise, but it is also likely to include external evidence, such as a consideration of other stakeholders, contextual factors relevant to the organization, potential costs and benefits, and other relevant information. With evidence-based decision-making,

managers are encouraged to rely on data and information rather than their intuition. This can be particularly beneficial for new managers or for experienced managers who are starting something new. (Consider all the research that Rubio and Korey conducted while starting Away).

Talk to other people

As mentioned previously, it can be worthwhile to get help from others when generating options. Another good time to talk to other people is while analyzing those options; other individuals in the organization may help you assess the quality of your choices. Seeking out the opinions and preferences of others is also a great way to maintain perspective, so getting others involved can help you to be less biased in your decision-making (provided you talk to people whose biases are different from your own).

Are you thinking critically about the options?

Our skill at assessing alternatives can also be improved by a focus on **critical thinking**. Critical thinking is a disciplined process of evaluating the quality of information, especially data collected from other sources and arguments made by other people, to determine whether the source should be trusted or whether the argument is valid.

An important factor in critical thinking is the recognition that a person's analysis of the available information may be flawed by a number of *logical fallacies* that they may use when they are arguing their point or defending their perspective. Learning what those fallacies are and being able to recognize them when they occur can help improve decision-making quality. See Table 6.2 for several examples of common logical fallacies.

Table 6.2

Name	Description	Examples	Ways to Combat This Logical Fallacy
Non sequitur (does not follow)	The conclusion that is presented isn't a logical conclusion or isn't the only logical conclusion based on the argument(s).	Our biggest competitor is spending more on marketing than we are. They have a larger share of the market. Therefore, we should spend more on marketing. The unspoken assumption: They have a larger share of the market BECAUSE they spend more on marketing	• Examine all the arguments. Are they reasonable? • Look for any assumptions that are being made in the argument sequence. Are they reasonable? • Try to gather evidence that supports or refutes the arguments and/or assumptions. In this example, you should ask whether there are any other reasons, besides their spending on marketing, why our competitor has a larger share of the market.
False cause	Assuming that because two things are related, one caused the other	"Our employees get sick more when we close for holidays. So we should stop closing for holidays."	This is similar to non sequitur; it makes an assumption in the argument sequence. • Ask yourself whether the first thing really causes the second, or if something else may be the cause. In this case, most holidays for which businesses close are in the late fall and winter (Thanksgiving, Christmas), and there are more illnesses at this time of year because of the weather, not because of the business being closed.
Ad hominem (attack the man)	Redirects from the argument itself to attack the person making the argument	"You aren't really going to take John seriously, are you? I heard his biggest client just dropped him for another vendor because he's all talk and no substance." The goal is that if you stop trusting the person, you'll discount their argument.	• Does the second person have something to gain, a hidden agenda, in trying to make you distrust the first person? • If the first person's argument came from someone else, would it be persuasive?
Genetic fallacy	You can't trust something because of its origins	"This was made in China, so it must be low quality." "He is a lawyer, so you can't trust anything he says."	This fallacy is based on stereotypes. Stereotypes are generalizations; some are grossly inaccurate, and even those that are accurate in SOME cases are never accurate in ALL cases. Recognize this for what it is—an attempt to prey on existing biases.

Name	Description	Examples	Ways to Combat This Logical Fallacy
Appeal to tradition	If we have always done it one particular way, that must be the right or best way	"We've always done it this way." "We shouldn't change this; it works fine the way it is."	• Consider whether the situation has changed, calling for a change in the way things are being done. • Consider whether new information suggests that the traditional viewpoint is incorrect. Remember, we used to think that the earth was flat.
Bandwagon approach	If the majority of people are doing it, it must be good.	"Everybody does it." "Our customers don't want to be served by people like that."	• Remember that the majority is sometimes wrong, and what is popular isn't always what is right. • Ask yourself whether "following the pack" is going to get you where you want to be. • Remember that organizations are usually successful by being better than their competitors at something . . . so following the crowd might not be the best approach to success
Appeal to emotion	Redirects the argument from logic to emotion	"We should do it for [recently deceased] Steve; it's what he would have wanted."	• Develop your awareness of your own emotions, and recognize when someone is trying to use them. • Ask yourself whether the argument stands on its own without the appeal to your emotions.

Table 6.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Have you considered the long-term implications?

A focus on immediate, short-term outcomes—with little consideration for the future—can cause problems. For example, imagine that a manager must decide whether to issue dividends to investors or put that money into research and development to maintain a pipeline of innovative products. It's tempting to just focus on the short-term: providing dividends to investors tends to be good for stock prices. But failing to invest in research and development might mean that in five years the company is unable to compete effectively in the marketplace, and as a result the business closes. Paying attention to the possible long-term outcomes is a crucial part of analyzing alternatives.

Are there ethical implications?

It's important to think about whether the various alternatives available to you are better or worse from an ethical perspective, as well. Sometimes managers make unethical choices because they haven't considered the ethical implications of their actions. In the 1970s, Ford manufactured the Pinto, which had an unfortunate flaw: the car would easily burst into flames when rear-ended. The

company did not initially recall the vehicle because they viewed the problem from a financial perspective, without considering the ethical implications (Trevino & Brown, 2004). People died as a result of the company's inaction. Unfortunately, these unethical decisions continue to occur—and cause harm—on a regular basis in our society. Effective managers strive to avoid these situations by thinking through the possible ethical implications of their decisions. The decision tree in Exhibit 6.6 is a great example of a way to make managerial decisions while also taking ethical issues into account.

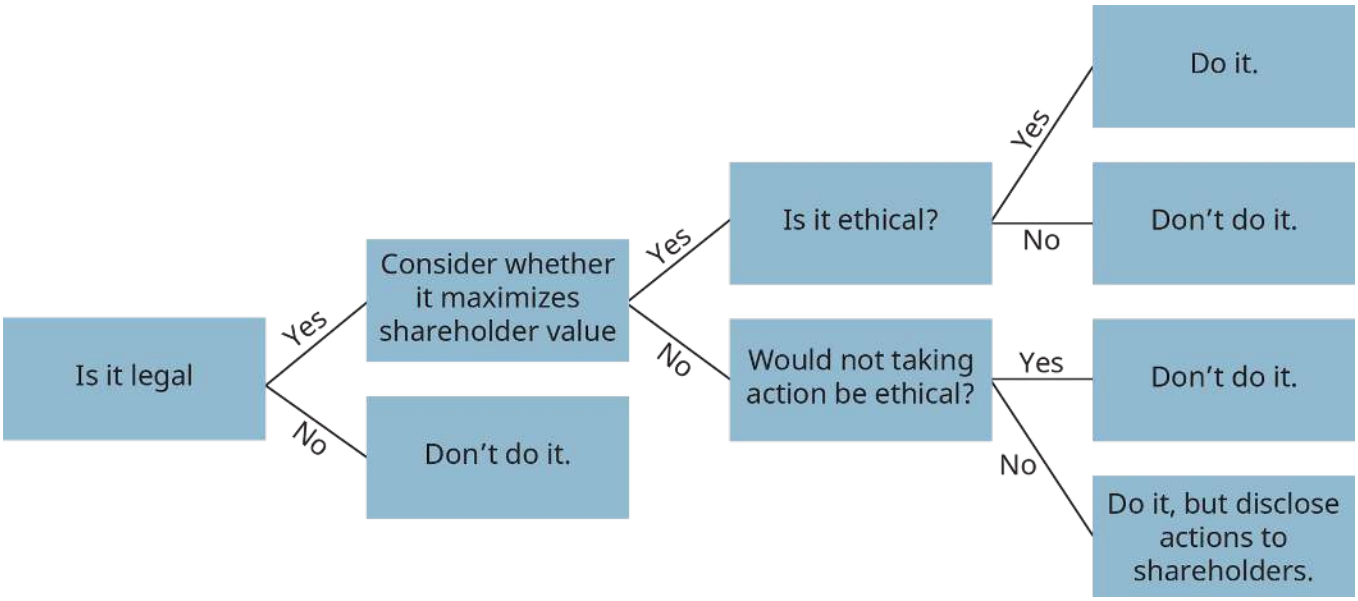


Exhibit 6.6 Ethical Decision Tree (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Thinking through the steps of ethical decision-making may also be helpful as you strive to make good decisions. James Rest's (1986) ethical decision-making model identifies four components of ethical decision-making:

1. Moral sensitivity—recognizing that the issue has a moral component
2. Moral judgment—determining which actions are right vs. wrong
3. Moral motivation/intention—deciding to do the right thing
4. Moral character/action—actually doing what is right.

Note that a failure at any point in the chain can lead to unethical actions! Taking the time to identify possible ethical implications will help you develop moral sensitivity, which is a critical first step to ensuring that you are making ethical decisions.

Once you have determined that a decision has ethical implications, you must consider whether your various alternatives are right or wrong—whether or not they will cause harm, and if so, how much and to whom. This is the moral judgment component. If you aren't sure about whether something is right or wrong, think about how you would feel if that decision ended up on the front page of a major newspaper. If you would feel guilty or ashamed, don't do it! Pay attention to those emotional cues—they are providing important information about the option that you are contemplating.

The third step in the ethical decision-making model involves making a decision to do what is right, and the fourth step involves following through on that decision. These may sound, but consider a situation in which your boss tells you to do something that you know to be wrong. When you push back, your boss makes it clear that you will lose your job if you don't do what you've been told to do. Now, consider that you have family at home who rely on your income. Making the decision to do what you know is right could come at a substantial cost to you personally. In these situations, your best course of action is to find a way to persuade your boss that the unethical action will cause greater harm to the organization in the long-term.

Step 4: Selecting an Alternative

Once alternative options have been generated and analyzed, the decision maker must select one of the options. Sometimes this is easy—one option is clearly superior to the others. Often, however, this is a challenge because there is not a clear "winner" in terms of the best alternative. As mentioned earlier in the chapter, there may be multiple good options, and which one will be best is unclear even after gathering all available evidence. There may not be a single option that doesn't upset some stakeholder group, so

you will make someone unhappy no matter what you choose. A weak decision maker may become paralyzed in this situation, unable to select among the various alternatives for lack of a clearly "best" option. They may decide to keep gathering additional information in hopes of making their decision easier. As a manager, it's important to think about whether the benefit of gathering additional information will outweigh the cost of waiting. If there are time pressures, waiting may not be possible.

Recognize that perfection is unattainable

Effective managers recognize that they will not always make optimal (best possible) decisions because they don't have complete information and/or don't have the time or resources to gather and process all the possible information. They accept that their decision-making will not be perfect and strive to make good decisions overall. Recognizing that perfection is impossible will also help managers adjust and change if they realize later on that the selected alternative was not the best option.

Talk to other people

This is another point in the process at which talking to others can be helpful. Selecting one of the alternatives will ultimately be your responsibility, but when faced with a difficult decision, talking through your choice with someone else may help you clarify that you are indeed making the best possible decision from among the available options. Sharing information verbally also causes our brains to process that information differently, which can provide new insights and bring greater clarity to our decision-making.

Step 5: Implementing the Selected Alternative

After selecting an alternative, you must implement it. This may seem too obvious to even mention, but implementation can sometimes be a challenge, particularly if the decision is going to create conflict or dissatisfaction among some stakeholders. Sometimes we know what we need to do but still try to avoid actually doing it because we know others in the organization will be upset—even if it's the best solution. Follow-through is a necessity, however, to be effective as a manager. If you are not willing to implement a decision, it's a good idea to engage in some self-reflection to understand why. If you know that the decision is going to create conflict, try to think about how you'll address that conflict in a productive way. It's also possible that we feel that there is no good alternative, or we are feeling pressured to make a decision that we know deep down is not right from an ethical perspective. These can be among the most difficult of decisions. You should always strive to make decisions that you feel good about—which means doing the right thing, even in the face of pressure to do wrong.

Step 6: Evaluating the Effectiveness of Your Decision

Managers sometimes skip the last step in the decision-making process because evaluating the effectiveness of a decision takes time, and managers, who are generally busy, may have already moved on to other projects. Yet evaluating effectiveness is important. When we fail to evaluate our own performance and the outcomes of our decisions, we cannot learn from the experience in a way that enables us to improve the quality of our future decisions.

Attending fully to each step in the decision-making process improves the quality of decision-making and, as we've seen, managers can engage in a number of tactics to help them make good decisions. Take a look at the *Ethics in Practice* box to see an example of how one particular manager puts these techniques into practice to make good decisions.

✔ Ethics In Practice

Rob Ault, Project Manager, Bayside Community Church

Bradenton, Florida

When it comes to decision-making, ethical dilemmas require particular care. Because managers make many decisions, it should not be surprising that some of those decisions will have ethical implications. With multiple stakeholders to consider, sometimes what is best for one group of stakeholders is not what is best for others. I talked to Rob Ault about his experiences with ethical dilemmas over the course of his career. Rob has been in managerial roles for over 25 years, since he was 19 years old. He told me that he had experienced a number of ethical dilemmas in that time.

Rob has spent most of his career working for for-profit organizations, and for about half of that time, he has worked in a union environment. What he has found most frustrating, regardless of environment, was when it was clear to him what was right, but what was right conflicted with what his boss was telling him to do. This included a situation in which he felt an employee

should be fired for misbehavior (but wasn't), as well as a situation in which he was asked to fire someone undeservedly. What we mostly talked about, though, was his process. How did he go about making decisions in these challenging situations?

Rob clearly stated that his approach to these situations has changed with experience. What he did early in his career is not necessarily what he would do now. He said that it takes experience and some maturity to recognize that, as a leader, the decisions you make affect other people's lives. He also explained that a starting point for the decision-making process is always a recognition of the fact that you have been hired to generate a benefit for your company. So, a manager's decisions need to come from the perspective of what is going to be in the best long-term interest of the organization (in addition to what is morally right). This isn't always easy, because short-term consequences are much easier to observe and predict.

I asked Rob who he talked to prior to making decisions in situations with an ethical component. Rob told me that he felt one of the most important things you should do as a leader is to intentionally create and build relationships with people you trust in the organization. That way you have people you know you can talk to when difficult situations come up. He was very clear that you should always talk to your boss, who will tend to have a broader understanding of what is going on in the context of the larger organization. He also told me that he liked to talk to his father, who happened to work in human resource management for a large Fortune 500 organization. His father was always helpful in providing the perspective of how things were likely to play out long-term if one person was allowed to bend the rules. Rob realized eventually that the long-term consequences of this were almost always negative: once one person is allowed to misbehave, others find out about it and realize that they can do the same thing without repercussions. Rob also seeks out the opinions of other individuals in the organization before reaching decisions with an ethical component; he told me that when he worked in a union environment, he tried to make sure he had a good relationship with the union steward because it was helpful to get the perspective of someone who was committed to the side of the employee.

The biggest ethical dilemma Rob faced was one that he actually couldn't talk to me about. He disagreed with what he was being asked to do, and when it was clear that he had no other choice in the matter, he quit his job rather than do something he felt wasn't right. He accepted a severance package in exchange for signing a nondisclosure agreement, which is why he can't share any details . . . but it was clear from our conversation that he feels he made the right choice. That particular ethical dilemma makes it clear how challenging managerial decision-making can sometimes be.

Discussion Questions

1. If you were faced with an ethical dilemma, from whom would you seek advice?
2. Describe some decisions that might be good for an organization's profitability in the short-term, but bad for the organization in the long-term.
3. What factors would you take into consideration if you were thinking about leaving your job rather than do something unethical?

? Concept Check

1. Explain what satisficing is and when it may be a good strategy.
2. What are the six steps in the decision-making process?
3. What are the four steps involved in ethical decision-making?

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6.8: Group Decision-Making

Learning Objectives

1. Understand the advantages and disadvantages of group decision-making, and how managers can improve the quality of group decision-making.

Involving more people in the decision-making process can greatly improve the quality of a manager's decisions and outcomes. However, involving more people can also increase conflict and generate other challenges. We turn now to the advantages and disadvantages of group decision-making.

Advantages of Group Decisions

An advantage to involving groups in decision-making is that you can incorporate different perspectives and ideas. For this advantage to be realized, however, you need a diverse group. In a diverse group, the different group members will each tend to have different preferences, opinions, biases, and stereotypes. Because a variety of viewpoints must be negotiated and worked through, group decision-making creates additional work for a manager, but (provided the group members reflect different perspectives) it also tends to reduce the effects of bias on the outcome. For example, a hiring committee made up of all men might end up hiring a larger proportion of male applicants (simply because they tend to prefer people who are more similar to themselves). But with a hiring committee made up of an equal number of men and women, the bias should be cancelled out, resulting in more applicants being hired based on their qualifications rather than their physical attributes.

Having more people involved in decision-making is also beneficial because each individual brings unique information or knowledge to the group, as well as different perspectives on the problem. Additionally, having the participation of multiple people will often lead to more options being generated and to greater intellectual stimulation as group members discuss the available options. **Brainstorming** is a process of generating as many solutions or options as possible and is a popular technique associated with group decision-making.

All of these factors can lead to superior outcomes when groups are involved in decision-making. Furthermore, involving people who will be affected by a decision in the decision-making process will allow those individuals to have a greater understanding of the issues or problems and a greater commitment to the solutions.

Disadvantages of Group Decisions

Group decision-making is not without challenges. Some groups get bogged down by conflict, while others go to the opposite extreme and push for agreement at the expense of quality discussions. **Groupthink** occurs when group members choose not to voice their concerns or objections because they would rather keep the peace and not annoy or antagonize others. Sometimes groupthink occurs because the group has a positive team spirit and camaraderie, and individual group members don’t want that to change by introducing conflict. It can also occur because past successes have made the team complacent.

Often, one individual in the group has more power or exerts more influence than others and discourages those with differing opinions from speaking up (**suppression of dissent**) to ensure that only their own ideas are implemented. If members of the group are not really contributing their ideas and perspectives, however, then the group is not getting the benefits of group decision-making.

How to Form a Quality Group

Effective managers will try to ensure quality group decision-making by forming groups with diverse members so that a variety of perspectives will contribute to the process. They will also encourage everyone to speak up and voice their opinions and thoughts prior to the group reaching a decision. Sometimes groups will also assign a member to play the **devil’s advocate** in order to reduce groupthink. The devil’s advocate intentionally takes on the role of critic. Their job is to point out flawed logic, to challenge the group’s evaluations of various alternatives, and to identify weaknesses in proposed solutions. This pushes the other group members to think more deeply about the advantages and disadvantages of proposed solutions before reaching and implementing a decision.



Exhibit 6.7 The Devils Advocate. At a meeting of McDonald's franchise owners, attorney Brian Schnell was placed in the audience as a devil's advocate and often strongly disagreed with franchisee attorney Bob Zarco that the National Labor Relations Board (NLRB)'s joint employer ruling on McDonald's is a boon for franchisees. He would raise his hand often and vehemently, which Zarco had asked him to do before the meeting. In that way, the franchisors' articulate arguments could be heard by all franchisee leaders in attendance and rebutted. Credit (Mr. Blue MauMau/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

The methods we've just described can all help ensure that groups reach good decisions, but what can a manager do when there is too much conflict within a group? In this situation, managers need to help group members reduce conflict by finding some common ground—areas in which they can agree, such as common interests, values, beliefs, experiences, or goals. Keeping a group focused on a common goal can be a very worthwhile tactic to keep group members working with rather than against one another. Table 6.3 summarizes the techniques to improve group decision-making.

Table 6.3

Type of Decision	Technique	Benefit
Group decisions	Have diverse members in the group.	Improves quality: generates more options, reduces bias
	Assign a devil's advocate.	Improves quality: reduces groupthink
	Encourage everyone to speak up and contribute.	Improves quality: generates more options, prevents suppression of dissent
	Help group members find common ground.	Improves quality: reduces personality conflict

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Conclusion

Decision-making is a crucial daily activity for managers. Decisions range from small and simple, with straightforward answers, to big and complex, with little clarity about what the best choice will be. Being an effective manager requires learning how to successfully navigate all kinds of decisions. Expertise, which develops gradually through learning and experience, generally improves managerial decision-making, but managers rarely rely solely on their own expertise. They also conduct research and collect information from others; they pay attention to ethical implication and their own biases; and they think critically about the information that they have received to make decisions that will benefit the organization and its stakeholders.

? Concept Check

1. Explain why group decision-making can be more effective than individual decision-making.
2. What are some things that can prevent groups from making good decisions?
3. As a manager, what can you do to enhance the quality of group decision-making?

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6.9: Summary

Key Terms

Bounded rationality

The concept that when we make decisions, we cannot be fully rational because we don't have all the possible information or the cognitive processing ability to make fully informed, completely rational decisions.

Brainstorming

A process of generating as many ideas or alternatives as possible, often in groups.

Confirmation Bias

The tendency to pay attention to information that confirms our existing beliefs and to ignore or discount information that conflicts with our existing beliefs.

Creativity

The generation of new or original ideas.

Critical Thinking

A disciplined process of evaluating the quality of information, especially by identifying logical fallacies in arguments.

Decision-making

The action or process of thinking through possible options and selecting one.

Devil's Advocate

A group member who intentionally takes on the role of being critical of the group's ideas in order to discourage groupthink and encourage deep thought and discussion about issues prior to making decisions.

Emotional Intelligence

The ability to understand and manage emotions in oneself and in others.

Escalation of Commitment

The tendency of decision-makers to remain committed to poor decisions even when doing so leads to increasingly negative outcomes.

Evidence-based Decision-making

A process of collecting the best available evidence prior to making a decision.

Groupthink

The tendency of a group to reach agreement very quickly and without substantive discussion.

Heuristics

Mental shortcuts that allow a decision-maker to reach a good decision quickly. They are strategies that develop based on prior experience.

Non-programmed Decisions

Decisions that are novel and not based on well-defined or known criteria.

Process conflict

Conflict about the best way to do something; conflict that is task-oriented and constructive, and not focused on the individuals involved.

Programmed Decision

Decisions that are repeated over time and for which an existing set of rules can be developed.

Reactive System

System of decision-making in the brain that is quick and intuitive.

Reflective System

System of decision-making in the brain that is logical, analytical, and methodical.

Relationship Conflict

Conflict between individuals based on personal (or personality) differences; this type of conflict tends to be destructive rather than constructive.

Satisficing

Choosing the first acceptable solution to minimize time spent on a decision.

Stakeholders

Individuals or groups who are impacted by the organization. These include owners, employees, customers, suppliers, and members of the community in which the organization is located.

Suppression of Dissent

When a group member exerts his or her power to prevent others from voicing their thoughts or opinions.

Summary of Learning Outcomes

6.2 Overview of Managerial Decision-Making

1. What are the basic characteristics of managerial decision-making?

Managers are constantly making decisions, and those decisions often have significant impacts and implications for both the organization and its stakeholders. Managerial decision-making is often characterized by complexity, incomplete information, and time constraints, and there is rarely one right answer. Sometimes there are multiple good options (or multiple bad options), and the manager must try to decide which will generate the most positive outcomes (or the fewest negative outcomes). Managers must weigh the possible consequences of each decision and recognize that there are often multiple stakeholders with conflicting needs and preferences so that it often will be impossible to satisfy everyone. Finally, managerial decision-making can sometimes have ethical implications, and these should be contemplated before reaching a final decision.

6.3 How the Brain Processes Information to Make Decisions: Reflective and Reactive Systems

2. What are the two systems of decision-making in the brain?

The brain processes information to make decisions using one of two systems: either the logical, rational (reflective) system or the quick, reactive system. The reflective system is better for significant and important decisions; these generally should not be rushed. However, the reactive system can be lifesaving when time is of the essence, and it can be much more efficient when based on developed experience and expertise.

6.4 Programmed and Non-programmed Decisions

3. What is the difference between programmed and non-programmed decisions?

Programmed decisions are those that are based on criteria that are well understood, while non-programmed decisions are novel and lack clear guidelines for reaching a solution. Managers can establish rules and guidelines for programmed decisions based on

known fact, which enables them to reach decisions quickly. Non-programmed decisions require more time to resolve; the decision maker may need to conduct research, collect additional information, gather opinions and ideas from other people, and so on.

6.5 Barriers to Effective Decision-Making

4. What barriers exist that make effective decision-making difficult?

There are numerous barriers to effective decision-making. Managers are limited in their ability to collect comprehensive information, and they are limited in their ability to cognitively process all the information that is available. Managers cannot always know all the possible outcomes of all the possible options, and they often face time constraints that limit their ability to collect all the information that they would like to have. In addition, managers, like all humans, have biases that influence their decision-making, and that can make it difficult for them to make good decisions. One of the most common biases that can confound decision-making is confirmation bias, the tendency for a person to pay attention to information that confirms her existing beliefs and ignore information that conflicts with these existing beliefs. Finally, conflict between individuals in organizations can make it challenging to reach a good decision.

6.6 Improving the Quality of Decision-Making

5. How can a manager improve the quality of her individual decision-making?

Managers tend to get better at decision-making with time and experience, which helps them build expertise. Heuristics and satisficing can also be useful techniques for making programmed decisions quickly. For non-programmed decisions, a manager can improve the quality of her decision-making by utilizing a variety of other techniques. Managers should also be careful to not skip steps in the decision-making process, to involve others in the process at various points, and to be creative in generating alternatives. They should also engage in evidence-based decision-making: doing research and collecting data and information on which to base the decision. Effective managers also think critically about the quality of the evidence that they collect, and they carefully consider long-term outcomes and ethical implications prior to making a decision.

6.7 Group Decision-Making

6. What are the advantages and disadvantages of group decision-making, and how can a manager improve the quality of group decision-making?

Groups can make better decisions than individuals because group members can contribute more knowledge and a diversity of perspectives. Groups will tend to generate more options as well, which can lead to better solutions. Also, having people involved in making decisions that will affect them can improve their attitudes about the decisions made. However, groups sometimes fail to generate added value in the decision-making process as a result of groupthink, conflict, or suppression of dissent.

Managers can improve the quality of group decision-making in a number of ways. First, when forming the group, the manager should ensure that the individual group members are diverse in terms of knowledge and perspectives. The manager may also want to assign a devil's advocate to discourage groupthink. Managers should also encourage all group members to contribute their ideas and opinions, and they should not allow a single voice to dominate. Finally, they should not allow personality conflicts to derail group processes.

? Chapter Review Questions

1. What are some of the factors that enabled Jen Rubio and Stephanie Korey to make good decisions when they established their luggage company, Away?
2. What are the two systems that the brain uses in decision-making? How are they related to programmed and non-programmed decisions?
3. What is a heuristic, and when would it be appropriate to use a heuristic for decision-making?
4. What is confirmation bias? Explain how it can be a barrier to effective decision-making.
5. What is a logical fallacy?
6. What are the two types of conflict? Which one is constructive, and which is destructive?
7. What are the steps in the decision-making process? Which ones do people tend to skip or spend insufficient time on?
8. What can individuals do to improve the quality of their decision-making?
9. What can groups or group leaders do to improve the quality of group decision-making?

10. What are the benefits of decision-making in a group rather than individually?

Management Skills Application Exercises

1. If you wanted to buy a new car, what research would you do first to increase the likelihood of making a good decision? As a manager, do you think you would engage in more research or less research than that prior to making big decisions for the organization?
2. Think about a big decision that you have made. What impact did your emotions have on that decision? Did they help or hinder your decision-making? Would you make the same decision again?
3. If you were faced with an ethical dilemma at work, who would you want to talk to for advice prior to reaching a decision?
4. Which would be better to involve a group with, a programmed or a non-programmed decision? Why?
5. If you were the manager of a group with a lot of personality conflict, what would you do?

Managerial Decision Exercises

1. Imagine that you are a manager and that two of your employees are blaming one another for a recent project not going well. What factors would you consider in deciding whom to believe? Who else would you talk to before making a decision? What would you do to try to reduce the likelihood of this happening again?
2. You have been asked whether your organization should expand from selling its products only in North America to selling its products in Europe as well. What information would you want to collect? Who would you want to discuss the idea with before making a decision?
3. You have a colleague who decided the organization should pursue a new technology. Nine months into the project of transitioning to the new technology, you, based on new information, are convinced that the new technology will not work out as anticipated. In fact, you expect it to be a colossal failure. However, when you try to talk to your colleague about the issue, she won't listen to your arguments. She is adamant that this new technology is the correct direction for your organization. Why do you think she is so resistant to seeing reason? Given what you learned in this chapter, what could you do to persuade her?
4. Your manager has asked you to take the lead on a new and creative project. She has encouraged you to create your own team (from existing employees) to work with you on the project. What factors would you want to consider in deciding who should join your project team? What would you want to do as the team leader to increase the likelihood that the group will be successful?
5. Identify the logical flaw(s) in this argument:

- We want effective leaders in this organization.
- Taller individuals tend to be perceived as more leaderlike.
- Men are usually taller than women.
- So, we should only hire men to be managers in our organization.

Critical Thinking Case

Vinyl Records Make a Comeback

The music industry has seen a series of innovations that have improved audio quality—vinyl records sales were eventually surpassed by compact discs in the 1980s, which were then eclipsed by digital music in the early 2000s. Both of the newer technologies boast superior sound quality to that of vinyl records. Vinyl should be dead . . . yet it's not. Some say this is simply a result of nostalgia—people love to harken back to older times. However, some audiophiles say that vinyl records produce a "warm" sound that can't be reproduced in any other format. In addition, a vinyl record is a tangible product (you can feel it, touch it, and see it when you own the physical record) and is more attractive, from an aesthetic perspective, than a CD. It is also a format that encourages listening to an entire album at once rather than just listening to individual tracks, which can change the listening experience.

Whatever the reasons, vinyl is making an impressive comeback. Sales growth has been in the double digits for the last several years (over 50% in 2015 and again in 2016) and is expected to exceed $5 billion in 2017. Sony, which hasn't produced a vinyl record since 1989, recently announced that it is back in the vinyl business.

One of the biggest challenges to making vinyl records is that most of the presses are 40+ years old. In the record-making process, vinyl bits are heated to 170 degrees, and then a specialized machine exerts 150 tons of pressure to press the vinyl into the shape of the record. About a dozen new vinyl record manufacturers have sprung up in the last decade in the United States. Independent Record Pressing, a company based in New Jersey, began producing vinyl records in 2015 using old, existing presses. Their goal upon starting up was to produce over a million records a year. Even at that level of production, though, demand far outstrips the company's capacity to produce because of the limited number of presses available. They could run their machines nonstop, 24 hours a day, and not catch up with demand.

The big question is what the future holds for this industry. Will this just be a passing fad? Will the vinyl record industry remain a niche market? Or is this the renaissance, the rebirth of a product that can withstand the test of time and alternative technologies? If it's a rebirth, then we should see demand continue to grow at its recent rapid pace . . . and if demand remains strong, then investing in new presses may well be worthwhile. If this is just a short-lived nostalgic return to an outdated medium, however, then the large capital investment required to purchase new presses will never be recouped. Even with the recent growth, vinyl records still accounted for only 7% of overall music industry sales in 2015. That may be enough to get old presses running again, but so far, it hasn't been enough to promote a lot of investment in new machines. The cost of a new press? Almost half a million dollars.

At least one manufacturer is optimistic about the future of vinyl. GZ Media, based in Czechoslovakia, is currently the world's largest producer of vinyl records. President and owner Zdenek Pelc kept his record factory going during the lean years when vinyl sales bottomed out. He admits that the decision was not wholly logical; he continued in part because of an emotional attachment to the medium. After demand for vinyl records practically disappeared, Pelc kept just a few of the presses running to meet the demand that remained. His intention was to be the last remaining manufacturer of vinyl records. Pelc's emotional attachment to vinyl records seems to have served him well, and it's a great example of why basing decisions on pure logic doesn't always lead to the best results. Consumers make purchasing decisions in part based on the emotional appeal of the product, so it shouldn't be surprising that consumers also feel an emotional attachment to vinyl records, as Pelc did.

When demand for vinyl records was low, Pelc stored the company's presses that were no longer in use so that they could be cannibalized for parts as needed. When sales began to grow again in 2005, he started pulling old machines out of storage and even invested in a few new ones. This has made GZ Media not only the largest vinyl record producer in the world but also one of the only ones with new factory equipment. GZ Media produces over 20 million vinyl records a year, and Pelc is excited to continue that trend and remain a major manufacturer in what is currently still considered a niche market.

Critical Thinking Questions

1. Why do you think vinyl records are appealing to customers?
2. Do you think the sales growth will continue to be strong for vinyl sales? Why or why not?
3. What research would you want to conduct prior to making a decision to invest in new presses?

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CHAPTER OVERVIEW

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7.1: Biblical Insight



Applying the Bible to Business

In this chapter, we will explore the subject of "strategic analysis" by understanding the current comparative environment. Senior leaders have the responsibility of guiding their company into a strong and successful financial future. One of the major ways this is accomplished is through strategic planning. Proverbs 24:6 states, “Strategic planning is the key to warfare; to win, you need a lot of good counsel” (MSG). In other words, to win in business you need strategic planning based on knowledge and insight from others.

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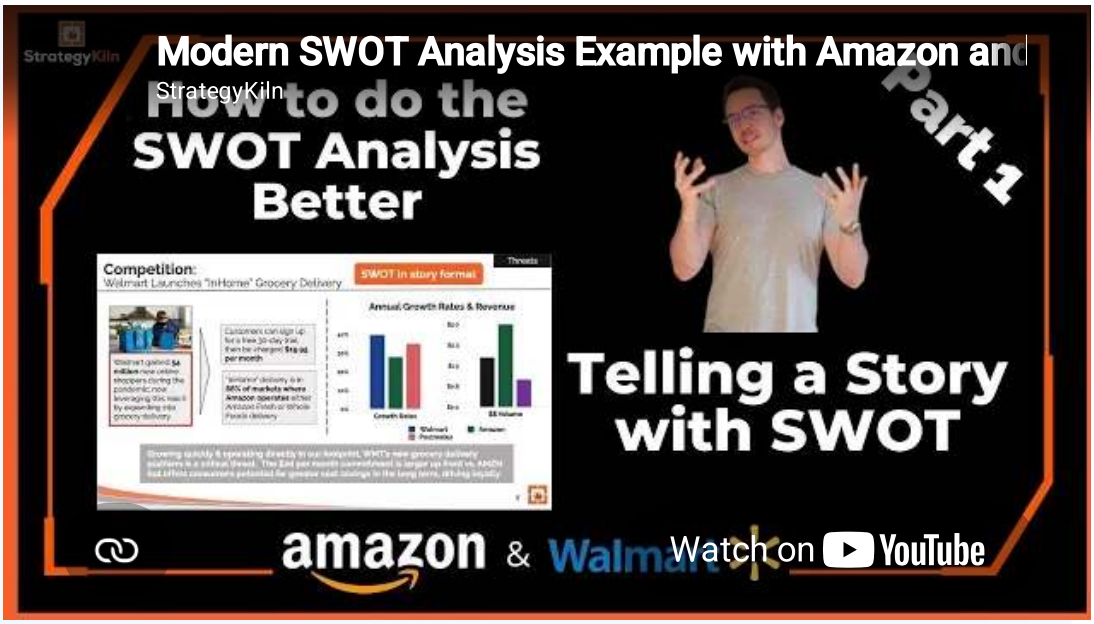
7.2: Introduction

Learning Objectives

After reading this chapter, you should be able to answer these questions:

- What is strategic analysis, and why do firms need to analyze their competitive environment?
- What is a SWOT analysis, and what can it reveal about a firm?
- What makes up a firm's external macro environment, and what tools do strategists use to understand it?
- What makes up a firm's external micro environment, and what tools do strategists use to understand it?
- How and why do managers conduct an internal analysis of their firms?
- What does it mean to compete with other firms in a business environment, what does it mean when a firm has a competitive advantage over its rivals, and what generic strategies can a firm implement to gain advantage over its rivals?
- What elements go into determining a firm's strategic position?

Case Study: Amazon and Wal Mart





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7.3: Gaining Advantages by Understanding the Competitive Environment

Learning Objectives

1. What is strategic analysis, and why do firms need to analyze their competitive environment?

Strategic analysis is the process that firms use to study and understand the many different layers and aspects of their competitive environment. Why do firms spend time and money trying to understand what is going on around them? Firms do not operate in a vacuum. They are impacted by forces and factors from inside their organizations and outside in the world at large. Understanding these forces and factors is crucial to achieving success as a business. For example, the growth in the Spanish-speaking population in the United States has led many firms to change the signage in their stores and labels on their products to include Spanish to make their stores easier to shop in and their products easier to identify for this growing market. The external environment is continually changing, and the most successful firms are able to prepare for and adapt to environmental changes because they have done their homework and understand how external forces impact their operations.

To react to change more easily and develop products consumers want, managers and consultants engage in **environmental scanning**—the systematic and intentional analysis of both a firm's internal state and its external, competitive environment. From a local coffee shop to an international corporation, firms of all sizes benefit from strategic analysis. Let's examine some important strategic factors in more detail.

The Competitive Environment

A firm's **competitive environment** includes components inside the firm and outside the firm. **External factors** are things in the global environment that may impact a firm's operations or success; examples are a rise in interest rates or a natural disaster. External factors cannot be controlled, but they must be managed effectively and understood so that the firm can succeed. For example, the unemployment rate will affect a firm's ability to hire qualified employees at a reasonable rate of pay. If unemployment is high, meaning that a lot of people are looking for jobs, then a firm will probably have a lot of applicants for any positions it needs to fill. It will be able to choose more highly qualified applicants to hire and may be able to hire them at a lower pay rate because the employee would rather work for a lower pay rate than not have a job at all. On the other hand, when unemployment is low, meaning that not many people are looking for jobs, firms may have to offer higher pay or settle for lower qualifications to find someone to fill a position.

Internal factors are characteristics of the firm itself. To plan to compete against other firms, a firm needs to understand what physical, financial, and human resources it has, what it is good at, and how it is organized. For example, Walmart has a sophisticated IT system that tracks inventory and automatically orders products before they run out by calculating how long it will take for the new product to arrive and comparing that to the rate at which the product is selling off the shelves. The system orders new products so that they will arrive just as the products on the shelves are running out so that Walmart stores do not need to have storage space for inventory. All Walmart inventory is on the store shelves, ready to be sold to customers. How does this system benefit Walmart? It does not have to spend money on storing or keeping track of inventory; all products in the store can generate revenue because they are available for customers to buy; and when the system is working optimally, the store never runs out of items customers want.

Concept Check

1. Why do managers use strategic analysis?
2. How are internal factors different from external factors in a firm's competitive environment?

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7.4: Using SWOT for Strategic Analysis

Learning Objectives

1. What is a SWOT analysis, and what can it reveal about a firm?

You may already have heard of one very common tool firms use to analyze their strategic and competitive situations: SWOT, an acronym for

- Strengths
- Weaknesses
- Opportunities
- Threats

Firms use SWOT analysis to get a general understanding of what they are good or bad at and what factors outside their doors might present chances for success or difficulty. Take a look at the SWOT analysis piece by piece (Exhibit 7.3).



Exhibit 7.3 The Components of SWOT (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Strengths

A firm's **strengths** are, to put it simply, what it is good at. Nike is good at marketing sports products, McDonald's is good at making food quickly and inexpensively, and Ferrari is good at making beautiful, fast cars. When a firm analyzes its strengths, it compiles a list of its capabilities and assets. Does the firm have a lot of cash available? That is a strength. Does the firm have highly skilled employees? Another strength. Knowing exactly what it is good at allows a firm to make plans that exploit those strengths. Nike can plan to expand its business by making products for a sport it doesn't currently serve. Its sports marketing expertise will help it successfully launch that new product line.

Weaknesses

A firm's **weaknesses** are what it is not good at—things that it does not have the capabilities to perform well. Weaknesses are not necessarily faults—remember that not all firms can be great at all things. When a firm understands its weaknesses, it will avoid trying to do things it does not have the skills or assets to succeed in, or it will find ways to improve its weaknesses before undertaking something new. A firm's weaknesses are simply gaps in capabilities, and those gaps do not always have to be filled within the firm.

SWOT analysis alerts firms to the gaps in their capabilities so they can work around them, find help in those areas, or develop capabilities to fill the gaps. For example, Paychex is a firm that handles payroll for over 600,000 firms (Paychex, 2017). Paychex processes hours, pay rates, tax and benefits deductions, and direct deposit for firms that would rather not have to perform those tasks themselves. A large firm would need to have a team of employees dedicated to fulfilling that task and equip that team with

software systems to do the job efficiently and accurately. For Paychex, these capabilities are a company strength—that's what it does. Other companies that do not have the resources to develop this capability or may not be interested in doing so can hire Paychex to do the job for them.

Opportunities

While strengths and weaknesses are internal to an organization, but opportunities and threats are always external. An **opportunity** is a potential situation that a firm is equipped to take advantage of. Think of opportunities in terms of things that happen in the market. Opportunities offer positive potential; however, sometimes a firm is not equipped to take advantage of an opportunity which is why considering the entire SWOT is important before deciding what to do. For example, as cities are becoming more populated, parking is becoming scarcer. Younger consumers who live in cities are starting to question whether it makes sense to own a car at all when public transportation is available and parking is not. Sometimes, however, a person might need a car to travel outside the city or transport a special purchase. Daimler, the manufacturer of Mercedes-Benz and Smart cars, started a car-sharing service in Europe, North America, and China called Car2Go (now named Share Now after merging with DriveNow) to offer cars to this new market of part-time drivers. By establishing Car2Go, Daimler has found a way to sell the use of its products to people who would not buy them outright.

Threats

When a manager assesses the external competitive environment, she labels anything that would make it harder for her firm to be successful as a **threat**. A wide variety of situations and scenarios can threaten a firm's chances of success, from a downturn in the economy to a competitor launching a better version of a product the firm also offers. A good threat assessment looks thoroughly at the external environment and identifies threats to the firm's business so it can be prepared to meet them. Opportunities and threats can also be a matter of perspective or interpretation: the Car2Go service that Daimler developed to serve young urban customers who don't own cars could also be cast as a defensive response to the trend away from car ownership in this customer group. Daimler could have identified decreasing sales among young urban professionals as a threat and developed Car2Go as an alternative way to gain revenue from these otherwise lost customers. Learn more about the car-sharing industry and the threats it faced, especially outside, unpredictable threats, such as COVID-19.



The Limitations of SWOT Analysis

Although a SWOT analysis can identify important factors and situations that affect a firm, it only works as well as the person doing the analysis. SWOT can generate a good evaluation of the firm's internal and external environments, but it is more likely to overlook key issues because it is difficult to identify or imagine everything that could, for example, be a threat to the firm. That's

why the remainder of this chapter will present tools for developing a strategic analysis that is more thorough and systematic in examining both the internal and external environments that firms operate in.

? concept Check

1. Explain the elements of a SWOT analysis.
2. What information does a SWOT analysis provide managers? What information might it miss?

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7.5: A Firm's External Macro Environment - PESTEL

Learning Objectives

1. What makes up a firm's external macro environment, and what tools do strategists use to understand it?

The world at large forms the **external environment** for businesses. A firm must confront, adapt to, take advantage of, and defend itself against what is happening in the world around it to succeed. To make gathering and interpreting information about the external environment easier, strategic analysts have defined several general categories of activities and groups that managers should examine and understand. Exhibit 7.4 illustrates layers and categories found in a firm's environment.

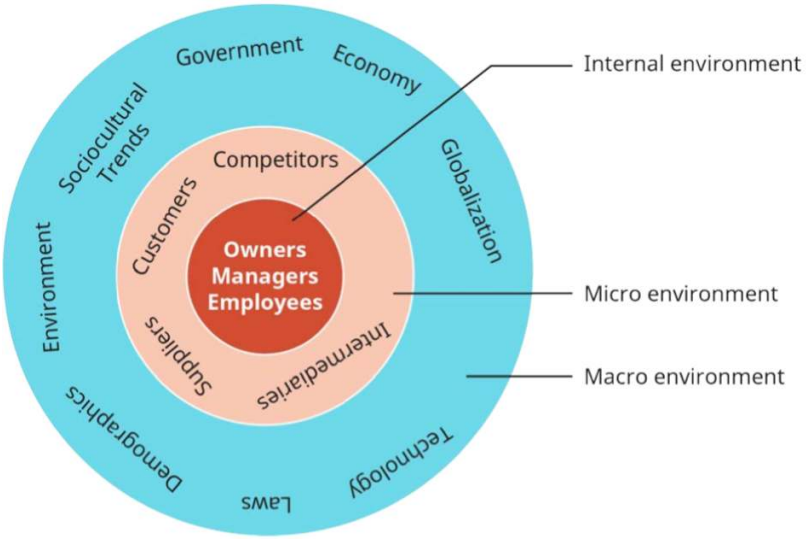


Exhibit 7.4 Components of a Firm's Environment (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A firm's **macro environment** contains elements that can impact the firm but are generally beyond its direct control. These elements are characteristics of the world at large and are factors that all businesses must contend with, regardless of the industry they are in or the type of business they are. In the Exhibit 7.4, the macro environment is indicated in blue. Note that the terms contained in the blue ring are all "big picture" items that exist independently of business activities. That is not to say that they do not affect firms or that firm activities cannot affect macro environmental elements; both can and do happen, but firms are largely unable to directly change things in the macro environment.

Strategists study the macro environment to learn about facts and trends that may present opportunities or threats to their firms. However, they do not usually just think in terms of SWOT. Strategists have developed more discerning tools to examine the external environment.

PESTEL

PESTEL is a tool that reminds managers to look at several distinct categories in the macro environment. Like SWOT, PESTEL is an acronym. In this case, the letters represent the categories to examine:

- Political factors
- Economic factors
- Sociocultural factors
- Technological factors
- Environmental factors
- Legal factors

When using PESTEL to analyze a specific firm's situation, overlap between different categories of PESTEL factors can sometimes happen, just as it can with SWOT.

Remember the earlier example: When urban millennials decide that car ownership is no longer attractive, car manufacturers' sales are threatened. However, those same manufacturers might be able to adapt their sales methods to offer millennials car-sharing services, taking advantage of the opportunity to earn revenue from millennials who want access to cars for vacations or big shopping trips. PESTEL can also reveal multiple impacts from a single element in the external environment. For example, decreasing interest in car ownership among urban millennials would be a sociocultural trend. However, the technological connectedness of those same urban millennials is exactly what makes it possible for ride-sharing services such as Uber and Lyft to thrive: their services are app based and provide convenience both by connecting drivers and passengers quickly and by making transactions cashless.

Exhibit 7.5 illustrates the components of PESTEL, which will be discussed individually below.

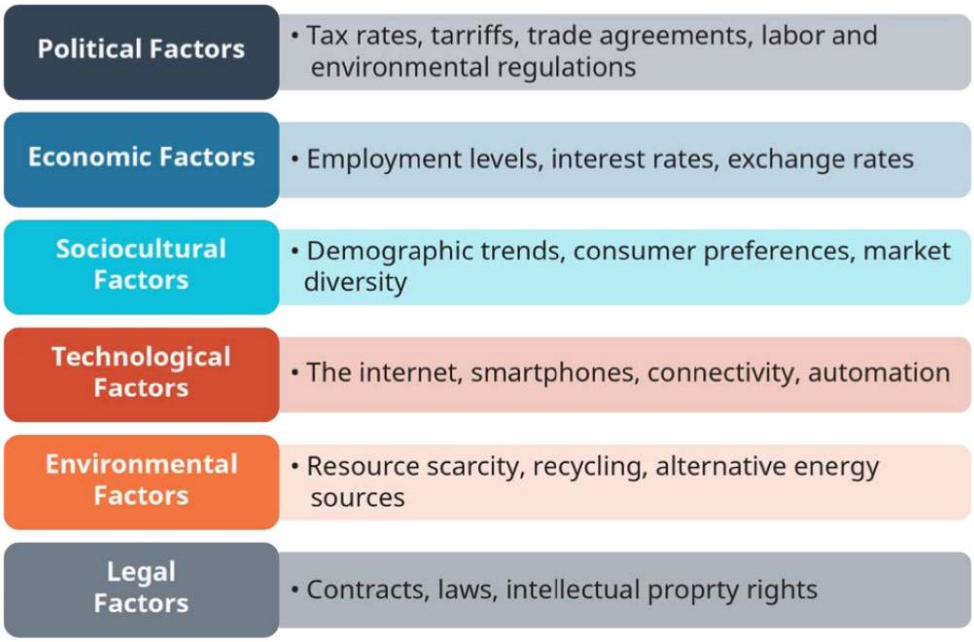


Exhibit 7.5 The PESTEL Model for External Environmental Analysis (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Political Factors

Political factors in the macro environment include taxation, tariffs, trade agreements, labor regulations, and environmental regulations. Note that in PESTEL, factors are not characterized as opportunities or threats. They are simply things that a firm can take advantage of or treat as problems, depending on its own interpretation or abilities. American Electric Power, a large company that generates and distributes electricity, may be negatively impacted by environmental regulations that restrict its ability to use coal to generate electricity because of pollution caused by burning coal. However, another energy firm has taken advantage of the government's interest in reducing coal emissions by developing a way to capture the emissions while producing power. The Petra Nova plant, near Houston, was developed by NRG and JX Nippon, who received Energy Department grants to help fund the project (Mooney, 2017). Although firms do not directly make government policy decisions, many industries and firms invest in lobbying efforts to try to influence government policy development to create opportunities or reduce threats.

Economic Factors

All firms are impacted by the state of the national and global economies. The increased interdependence of individual country economies has made evaluating the **economic factors** in a firm's macro environment more complex. Firms analyze economic indicators to make decisions about entering or exiting geographic markets, investing in expansion, and hiring or laying off employees. As discussed earlier in this chapter, employment rates impact the quantity, quality, and cost of employees available to firms. Interest rates impact sales of big-ticket items that consumers normally finance, such as appliances, cars, and homes. Interest rates also impact the cost of capital for firms that want to invest in expansion. Exchange rates present risks and opportunities to all firms that operate across national borders, and the price of oil impacts many industries, from airlines and transportation companies

to solar panel producers and plastic recycling companies. Once again, any scenario can be a threat to one firm and an opportunity to another, so economic forces should not be assumed to be intrinsically good or bad.

Sociocultural Factors

Quite possibly the largest category of macro environmental factors an analyst might examine are **sociocultural factors**. This broad category encompasses everything from changing national demographics to fashion trends and many things in between. **Demographics**, a subset of this category, includes facts about income, education levels, age groups, and the ethnic and racial composition of a population. All of these facts present market challenges and possibilities. Firms can target products to specific market segments by studying the needs and preferences of demographic groups, such as working women (they might need daycare services but not watch daytime television), college students (who would be interested in affordable textbooks but couldn't afford to buy new cars), or the elderly (who would be willing to pay for lawn-mowing services but might not be interested in adventure tourism).

Changes in people's values and interests are also included in this category. Environmental awareness has spurred demand for solar panels and electric and hybrid cars. A general interest in health and fitness has created industries in gyms, home gym equipment, and organic food. The popularity of social media has created an enormous demand for instant access to information and services, not to mention smartphones. Values and interests are constantly changing and vary from country to country, creating new market opportunities as well as communication challenges for companies trying to enter unfamiliar markets.

Technological Factors

The rise of the Internet may be the most disruptive technological change of the last century. The globe has become more interconnected and interdependent because of the fast, low-cost communications the Internet provides. Customer service agents in India can serve customers in Kansas because technology has advanced to the point that the customer's account information can be instantly accessed by the service provider in India. Entrepreneurs around the world can reach customers anywhere through companies such as eBay, Alibaba, and Etsy, and they can get paid, regardless of their customers' currency, through PayPal. The Internet has enabled Jeff Bezos, who started an online bookselling company called Amazon in 1994, to transform how consumers shop for goods.

How else have **technological factors** impacted business? The Internet is not the only technological advance that has transformed how businesses operate. Automation has increased efficiency for manufacturers. **Materials requirement planning** (MRP) systems have changed how companies and their suppliers work together, and global positioning technology has helped construction engineers manage large projects more accurately. Consumers and firms have nearly unlimited access to information, and this access has empowered consumers to make more informed buying decisions and challenged firms to develop ways to analyze the large amounts of data their businesses generate.

Environmental Factors

The physical environment, which provides natural resources for manufacturing and energy production, has always been a key part of human business activity. As resources become scarcer and more expensive, **environmental factors** impact businesses more every day. Firms are developing technology to operate more cleanly and using fewer resources. Political pressure on businesses to reduce their impact on the natural environment has increased globally and dramatically in the 21st century. In 2017, London, Barcelona, and Paris announced their plans to ban cars with internal combustion engines over the next few decades to combat air quality issues (Smith, 2017).

This external environment category often overlaps with others in PESTEL because concern for the environment is also a sociocultural trend, as more consumers look for recycled products and buy electric and hybrid cars. On the political front, firms are facing increased regulation around the world on their carbon emissions and natural resource use. Although SWOT would characterize these factors as either opportunities or threats, PESTEL simply identifies them as aspects of the external environment that firms must consider when planning for their futures.

Legal Factors

Legal factors in the external environment often coincide with political factors because laws are enacted by government entities. This does not mean that the categories identify the same issues, however. Although labor laws and environmental regulations have deep political connections, other legal factors can impact business success. For example, in the streaming video industry, licensing fees are a significant cost for firms. Netflix pays billions of dollars every year to movie and television studios for the right to broadcast their content. In addition to the legal requirement to pay the studios, Netflix must consider that consumers may find illegal ways to view the movies they want to see, making them less willing to pay to subscribe to Netflix. Intellectual property rights and patents are major issues in the legal realm.

Note that some external factors are difficult to categorize in PESTEL. For instance, tariffs can be viewed as either a political or economic factor, whereas the influence of the internet could be viewed as either a technological or social factor. Although some issues can overlap two or more PESTEL areas, this does not diminish the value of PESTEL as an analytical tool.



Concept Check

1. Describe a firm's macro environment.
2. What does PESTEL stand for? How do managers use PESTEL to understand their firm's macro environment?

Ethics in Practice

Sustainability and Responsible Management: Can LEGO Give up Plastic?

"In 2012, the LEGO Group first shared its ambition to find and implement sustainable alternatives to the current raw materials used to manufacture LEGO products by 2030. The ambition is part of the LEGO Group's work to reduce its environmental footprint and leave a positive impact on the planet our children will inherit" (Trangbæk, 2016).

Danish toy company LEGO announced in 2015 that it would invest almost $160 million dollars into its efforts to meet the goal it announced in 2012. You know LEGO—they are the colored plastic bricks that snap together to make toys ranging from Harry Potter castles to Star Wars fighter craft. The family-owned company was founded in 1932 by Ole Kirk Christiansen and has since grown to be the world's number-one toy brand (Brand Finance, 2017).

Given that LEGO and plastic seem to go hand in hand, why would the company want to give up on the material that makes their toys so successful? LEGO's manufacturing process relies on plastic to make highly precise plastic bricks that always fit together securely and easily. Replacing the plastic with another material that is durable, brightly colored, and molded precisely

is a difficult task. LEGO's leadership has decided that a strategic position based on fossil fuels is not sustainable and is making plans now to transition to a more environmentally friendly material to manufacture its products.

Switching from oil-based plastic might make economic sense as well. Manufacturers who rely on petroleum-based products must weather volatile oil prices. LEGO's raw materials costs could skyrocket overnight if the price of oil climbs again as it did in 2011. That price spike was due to conflict in Libya and other parts of the Arab world, something entirely beyond the control of any business (Holodny, 2016).

Technological innovations in bio-based plastics may be the answer for LEGO, which is working with university researchers around the globe to find a solution to its carbon footprint problem (Peters, 2015).

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Critical Thinking Questions

1. How would you approach this issue if you were the manager in charge of sourcing raw materials for LEGO? How would PESTEL analysis inform your actions?
2. What PESTEL challenges is LEGO trying to address by changing the raw materials used in its products?
3. Explain what favorable PESTEL factors support LEGO's efforts.

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7.6: A Firm's Micro Environment- Porter's Five Forces

Learning Objectives

1. What makes up a firm's external micro-environment, and what tools do strategists use to understand it?

A firm's **micro-environment** is illustrated in the green circle in Exhibit 7.4. These entities are all directly connected to the firm in some way, and firms must understand the micro-environment in order to successfully compete in an industry. All firms are part of an **industry**—a group of firms all making similar products or offering similar services, such as automobile manufacturers or airlines. Firms in an industry may or may not compete directly against one another, as we'll discuss shortly, but they all face similar situations in terms of customer interests, supplier relations, and industry growth or decline.

Harvard strategy professor Michael Porter developed an analysis tool to evaluate a firm's micro-environment. **Porter's Five Forces** is a tool used to examine different micro-environmental groups in order to understand the impact each group has on a firm in an industry (Exhibit 7.6). Each of the forces represents an aspect of competition that affects a firm's potential to be successful in its industry. It is important to note that this tool is *different* than Porter's generic strategy typology, which we will discuss later.

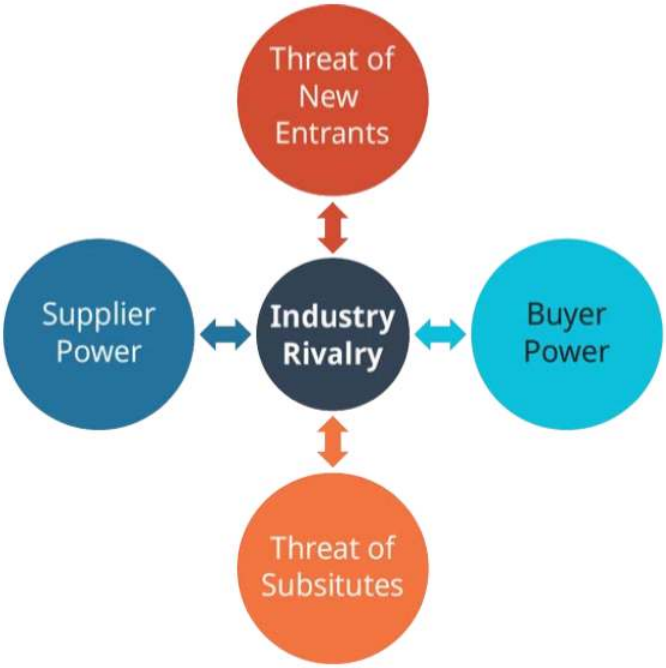


Exhibit 7.6 Porter's Five Forces Model of Industry Competition (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Industry Rivalry

Industry rivalry, the first of Porter's forces, is in the center of the diagram. Note that the arrows in the diagram show two-way relationships between rivalry and all of the other forces. This is because each force can affect how hard firms in an industry must compete against each other to gain customers, establish favorable supplier relationships, and defend themselves against new firms entering the industry.

When using Porter's model, an analyst will determine if each force has a strong or weak impact on industry firms. In the case of rivalry, the question of strength focuses on how hard firms must fight against industry rivals (competitors) to gain customers and market share. Strong rivalry in an industry reduces the profit potential for all firms because consumers have many firms from which to purchase products or services and can make at least part of their purchasing decisions based on prices. An industry with weak rivalry will have few firms, meaning that there are enough customers for everyone, or will have firms that have each staked out a unique position in the industry, meaning that customers will be more loyal to the firm that best meets their needs.

The Threat of New Entrants

In an industry, there are incumbent (existing) firms that compete against each other as rivals. If an industry has a growing market or is very profitable, however, it may attract **new entrants**. These either are firms that start up in the industry as new companies or are firms from another industry that expand their capabilities or target markets to compete in an industry that is new to them.

Different industries may be easier or harder to enter depending on **barriers to entry—**factors that prevent new firms from successfully competing in the industry. Common barriers to entry include cost, brand loyalty, and industry growth. For example, airlines rarely face threats from new entrants because obtaining the equipment, airport landing rights, and expertise to start up a new airline is very expensive.

Brand loyalty can also keep new firms from entering an industry because customers who are familiar with a strong brand name may be unwilling to try a new, unknown brand. Industry growth can increase or decrease the chances a new entrant will succeed. In an industry with low growth, new customers are scarce, and a firm can only gain market share by attracting customers from other firms. Think of all the ads you see and hear from competing cell phone providers. Cell phone companies are facing lower industry growth and must offer consumers incentives to switch from another provider. On the other hand, high-growth industries have an increasing number of customers, and new firms can successfully appeal to new customers by offering them something existing firms do not offer. It is important to note that barriers to entry are not always external; firms often lobby politicians for regulations that can be a barrier to entry. These types of barriers will be covered in greater depth in upper-level courses.

Threat of Substitutes

In the context of Porter's model, a **substitute** is any other product or service that can satisfy the same need for a customer as an industry's offerings. Be careful not to confuse substitutes with rivals. Rivals offer similar products or services and directly compete with one another. Substitutes are completely different products or services that consumers would be willing to use instead of the products they currently use. For example, the fast-food industry offers quickly prepared, convenient, low-cost meals. Customers can go to McDonald's, Wendy's, Burger King, or Taco Bell—all of these firms compete against each other for business. However, their customers are really just hungry people. What else could you do if you were hungry? You could go to the grocery store and buy food to prepare at home. McDonald's does not directly compete against Kroger for customers, because they are in different industries, but McDonald's does face a threat from grocery stores because they both sell food. How does McDonald's defend itself from the threat of Kroger as a substitute? By making sure their food is already prepared and convenient to purchase—your burger or salad is ready to eat and available without even getting out of your car.



Exhibit 7.7 McDonalds A drive-through menu at this McDonald's is designed to help customers choose their meal quickly and have it ready for pickup at the drive-through window. (Credit: Caribb/ flickr/ Public Domain)

Supplier Power

Virtually all firms have suppliers who sell parts, materials, labor, or products. **Supplier power** refers to the balance of power in the relationship between firms and their suppliers in an industry. Suppliers can have the upper hand in a relationship if they offer specialized products or control rare resources. For example, when Sony develops a new PlayStation model, it often works with a single supplier to develop the most advanced processor chip it can for their game console. That means its supplier will be able to command a fairly high price for the processors, an indication that the supplier has power. On the other hand, a firm that needs commodity resources such as oil, wheat, or aluminum in its operations will have many suppliers to choose from and can easily switch suppliers if the price or quality is better from a new partner. Commodity suppliers usually have low power.

Buyer Power

The last of Porter's forces is **buyer power**, which refers to the balance of power in the relationship between a firm and its customers. If a firm provides a unique good or service, it will have the power to charge its customers premium prices because those customers have no choice but to buy from the firm if they need that product. In contrast, when customers have many potential sources for a product, firms will need to attract customers by offering better prices or better value for the money if they want to sell their products. One thing that protection firms have against buyer power is **switching costs**, the penalty consumers face when they choose to use a particular product made by a different company. Switching costs can be financial (the extra price paid to choose a different product) or practical (the time or hassle required to switch to a different product). For example, think about your smartphone. If you have an iPhone now, what would be the penalty for you to switch to a non-Apple smartphone? Would it just be the cost of the new phone? Smartphones are not inexpensive, but even when cell phone service providers offer free phones to new customers, many people still don't switch. The loss of compatibility with other Apple products, the need to transfer apps and phone settings to another system, and the loss of favorite iPhone features, such as iMessage, are enough to keep many people loyal to their iPhones.



? Concept Check

1. Describe each of Porter's Five Forces. What information does each provide a manager trying to understand her firm's micro-environment?

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7.7: The Internal Environment

Learning Objectives

1. How and why do managers conduct an internal analysis of their firms?

A firm's internal environment is illustrated in Exhibit 7.4 by the innermost orange circle. The **internal environment** consists of members of the firm itself, investors in the firm, and the assets a firm has. Employees and managers are good examples; they are firm members who have skills and knowledge that are valuable assets to their firms. Evaluating a firm's internal environment is not just a matter of counting heads, however. Successful firms have a wide range of resources and capabilities that they can use to maintain their success and grow into new ventures. A thorough analysis of a firm's internal situation provides a manager with an understanding of the resources available to pursue new initiatives, innovate, and plan for future success.

Resources and Capabilities

A firm's resources and capacities are the unique skills and assets it possesses. **Resources** are things a firm must work with, such as equipment, facilities, raw materials, employees, and cash. **Capabilities** are things a firm can do, such as: deliver good customer service or develop innovative products to create value. Both are the building blocks of a firm's plans and activities, and both are required if a firm is going to compete successfully against its rivals. Firms use their resources and leverage their capabilities to create products and services that have some advantage over competitors' products. For example, a firm might offer its customers a product with higher quality, better features, or lower prices. Not all resources and capabilities are equally helpful in creating success, though. Internal analysis identifies exactly which assets bring the most value to the firm.

The Value Chain

Before examining the role of resources and capabilities in firm success, let's take a look at the importance of how a firm uses those factors in its operations. A firm's **value chain** is the progression of activities it undertakes to create a product or service that consumers will pay for. A firm should be adding value at each of the chain of steps it follows to create its product. The goal is for the firm to add enough value so that its customers will believe that the product is worth buying for a price that is higher than the costs the firm incurs in making it. As an example, Exhibit 7.8 illustrates a hypothetical value chain for some of Walmart's activities.

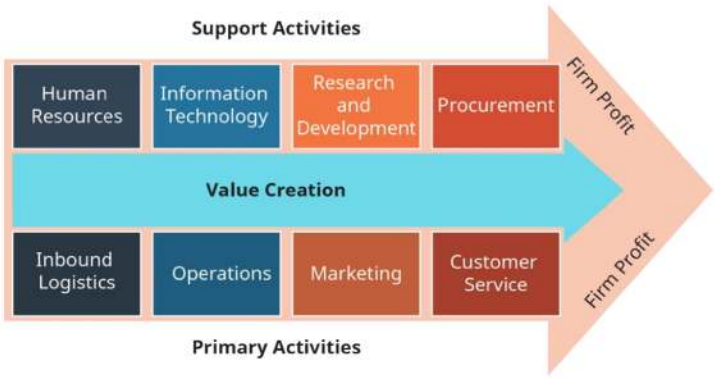


Exhibit 7.8 A Value Chain Example (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

In this example, note that value increases from left to right as Walmart performs more activities. If it adds enough value through its efforts, it will profit when it finally sells its services to customers. By working with product suppliers (procurement), getting those products to store locations efficiently (inbound logistics), and automatically keeping track of sales and inventory (information technology), Walmart can offer its customers a wide variety of products in one store at low prices, a service customers value. **Primary activities**, the ones across the bottom half of the diagram, are the actions a firm takes to directly provide a product or service to customers. **Support activities**, the ones across the top of the diagram, are actions required to sustain the firm that are not directly part of product or service creation.

Using Resources and Capabilities to Build an Advantage over Rivals

A firm's resources and capabilities are not just a list of equipment and things it can do. Instead, resources and capabilities are the distinctive assets and activities that separate firms from each other. Firms that can amass critical resources and develop superior capabilities will succeed in competition over rivals in their industry. Strategists evaluate firm resources and capabilities to determine if they are sufficiently special to help the firm succeed in a competitive industry.

Using VRIO

The analytical tool used to assess resources and capabilities is called **VRIO**. As usual, this is an acronym developed to remind managers of the questions to ask when evaluating their firms' resources and capabilities. The four questions of VRIO focus on

- value
- rarity
- imitation
- organization

These four questions are illustrated in Exhibit 7.9 below.

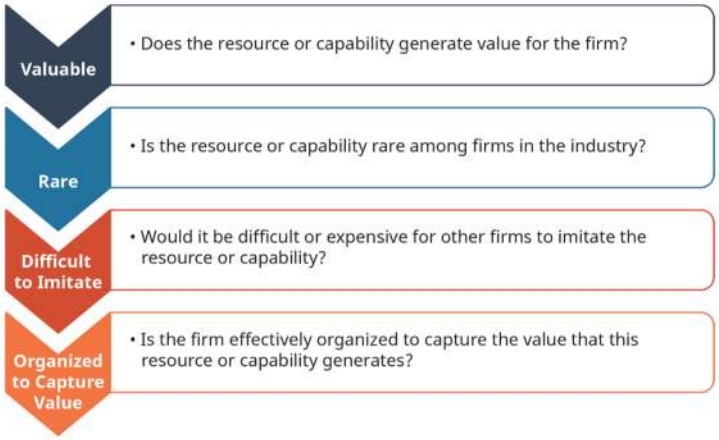


Exhibit 7.9 VRIO, a Tool for Evaluating Firm Resources and Capabilities (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

If each question can be answered with a "yes," then the resource or capability being evaluated may provide a competitive advantage for the firm. An example will help you better understand the VRIO process.

Starbucks' Resources and Capabilities

Resources	Capabilities
Brand name	Making quality coffee drinks
Thousands of locations worldwide	Delivering excellent customer service
Cash	Training excellent staff
Loyal customers	Paying above-average wages
Well-trained employees	Retaining quality employees

Table 7.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

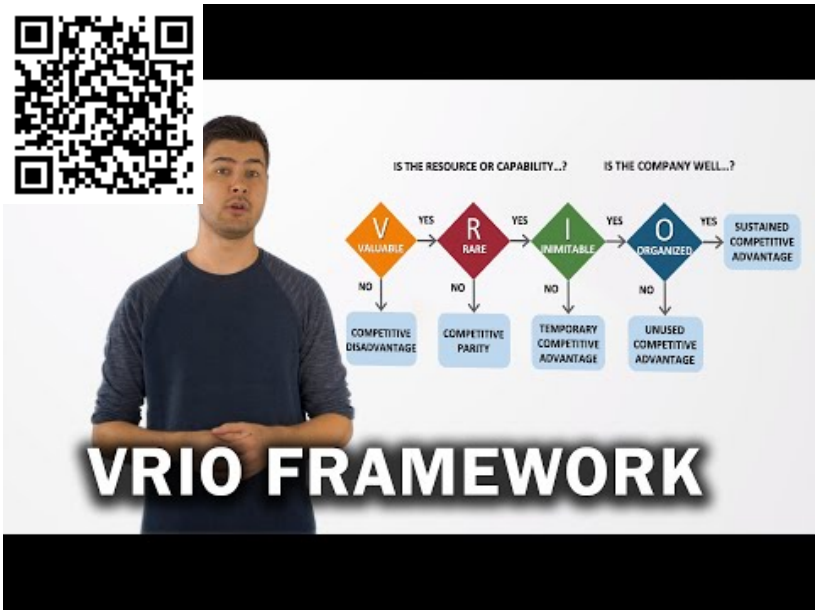
You look at your list and decide to pick a few of the entries to evaluate with VRIO (Table 7.2):

Evaluating Starbucks' VRIO

Resource/ Capability	Is it valuable?	Is it rare?	Is it difficult to imitate?	Is Starbucks organized to capture its value?	Can it be a basis for competitive advantage?
Brand Name	Yes	Yes	Yes	Yes	Yes
Delivering excellent customer service	Yes	Yes	Yes	Yes	Yes
Thousands of locations worldwide	Yes	No	No	Yes	Yes

Table 7.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

According to the evaluation above, Starbucks' brand helps it compete and succeed against rivals, as does its excellent customer service. However, simply having a lot of locations globally isn't enough to beat rivals—McDonald's and Subway also have thousands of worldwide locations, and both serve coffee. Starbucks succeeds against them because of their brand and customer service.



Concept Check

1. What are firm resources and capabilities?
2. Describe a value chain and what the activities in the chain represent.
3. What is VRIO? What questions do the letters stand for, and how does using VRIO help a manager make decisions?

ManaginG Change

Technology and Innovation: Uber, Lyft, and the Self-Driving Car: The Transportation of the Future Is Coming Soon

Although the ride-sharing industry is still relatively new, it has seen explosive growth, and its two main rivals, Uber and Lyft, are looking for ways to increase their capacity to serve riders. Both firms and rivals like them operate in basically the same way. A person needing a ride uses a smartphone app to alert a nearby person with a car of their location. The driver, usually an independent contractor for the service (meaning they are just a person with a car that has signed up to provide rides in exchange for a portion of the fare the customer pays), picks up the customer and drives them to their destination. Paying for the ride is also handled through the app, and the driver receives about 75–80% of the fare, with Uber or Lyft keeping the balance (Ridester, 2024).



Exhibit 7.10 Rideshare pickup area The ride-share pickup area at Pierre Elliott Trudeau Airport in Montreal. Due to the popularity of ride sharing with companies such as Uber and Lyft, municipalities and airports have had to accommodate the changing demands of customers. (Credit: Quinn Dombroski/ flickr/ Attribution-ShareAlike2.0 Generic (CC BY-NC 2.0))

The popularity of ride-sharing services has soared, and both companies are constantly recruiting more drivers. However, both companies have also explored alternatives to independent drivers: self-driving cars. Uber and Lyft have taken different paths to develop this capability. Uber has worked to internally develop its own software technology and self-driving car technology, while Lyft has focused on software interfaces that can accommodate other companies' self-driving cars (Bensinger, 2017). Lyft's partnerships with firms such as Google and GM that are already developing self-driving cars has put it ahead of Uber in the race to get driverless vehicles into its ride-sharing network, and it was able to test self-driving cars in Boston by partnering with NuTonomy in 2017 (Edelstein, 2017). Lyft offered a demonstration to journalists at the Consumer Electronics Show in Las Vegas in 2018, offering rides in self-driving cars developed by Aptiv (O'Kane, 2018). Uber had been testing similar technology in Pittsburgh but suspended its self-driving car program after a fatal pedestrian accident in Arizona (Korosec, 2018).

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Critical Thinking Questions

1. What resource or capability challenges have Uber and Lyft faced because their fast company growth?

2. What PESTEL factors do you think are contributing to the popularity of ride-sharing services?
3. What industry challenges (think of Porter's Five Forces) does the use of self-driving cars address?

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7.8: Competition, Strategy, and Competitive Advantage

Learning Objectives

1. What does it mean to compete with other firms in a business environment, what does it mean when a firm has a competitive advantage over its rivals, and what generic strategies can a firm implement to gain advantage over its rivals?

Now that you understand more about the environment that businesses operate in, let's take a deeper look at exactly how they operate. Businesses exist to make profits by offering goods and services in the marketplace at prices that are higher than the costs they incurred creating those goods and services. Businesses rarely exist alone in an industry; **competition** is usually a key part of any marketplace. This means that businesses must find ways to attract customers to their products and away from competitors' products. **Strategy** is the process of planning and implementing actions that will lead to success in competition.

The analytical tools we discuss here are part of the strategic planning process. Managers cannot successfully plan to compete in an industry if they don't understand its competitive landscape. It is also unlikely that a firm planning to launch a new product they are not equipped to make will be successful.

Competition

Porter's Five Forces model is centered around rivalry, a synonym for competition. In any industry, multiple firms compete against each other for customers by offering better or cheaper products than their rivals. Firms use PESTEL to understand what consumers are interested in and use VRIO to evaluate their own resources and capabilities so that they can figure out how to offer products and services that match those consumer interests and that are better in quality and price than the products offered by their competitors.

A firm is described as having a **competitive advantage** when it successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do. A firm achieves a competitive advantage by adding value to its products and services or reducing its own costs more effectively than its rivals in the industry.

Generic Business-Level Competitive Strategies

When discussing business strategy, a business is a firm or a unit of a firm that centers its activities around one primary type of product or service line. Business-level strategy is the general way that a business organizes its activities to compete against rivals in its product industry. Michael Porter (the same Harvard professor who developed the Five Forces Model) defined three **generic business-level strategies** that outline the basic methods of organizing to compete in a product market. He called the strategies "generic" because these ways of organizing can be used by any firm in any industry.

Cost Leadership

When pursuing a **cost-leadership strategy**, a firm offers customers its product or service at a lower price than its rivals can. To achieve a competitive advantage over rivals in the industry, the successful cost leader tightly controls costs throughout its value chain activities. Supplier relationships are managed to guarantee the lowest prices for parts, manufacturing is conducted in the least expensive labor markets, and operations may be automated for maximum efficiency. A cost leader must spend as little as possible producing a product or providing a service so that it will still be profitable when selling that product or service at the lowest price. Walmart is the master of cost leadership, offering a wide variety of products at lower prices than competitors because it does not spend money on fancy stores, it extracts low prices from its suppliers and pays employees low wages.

Differentiation

Not all products or services in the marketplace are offered at low prices, of course. A **differentiation strategy** is exactly the opposite of a cost-leadership strategy. While firms do not look to spend as much as possible to produce their output, firms that differentiate try to add value to their products and services so they can attract customers who are willing to pay a higher price. At each step in the value chain, the differentiator increases the quality, features, and overall attractiveness of its products or services. Research and development efforts focus on innovation, customer service is excellent, and marketing bolsters the value of the firm brand. These efforts guarantee that the successful differentiator can still profit even though its production costs are higher than a

cost leader's. Starbucks is a good example of a differentiator: it makes coffee, but its customers are willing to pay premium prices for a cup of Starbucks coffee because they value the restaurant atmosphere, customer service, product quality, and brand.

Porter's typology assumes that firms can succeed through either cost leadership or differentiation. Trying to combine these two, Porter suggests, can lead to a firm being stuck in the middle.

Focus

Porter's third generic competitive strategy, **focus**, is a little different from the other two. A firm that focuses still must choose one of the other strategies to organize its activities. It will still strive to lower costs or add value. The difference here is that a firm choosing to implement a focused strategy will concentrate its marketing and selling efforts on a smaller market than a broad cost leader or differentiator. A firm following a focus-differentiation strategy, for example, will add value to its product or service that a few customers will value highly, either because the product is specifically suited to a particular use or because it is a luxury product that few can afford. For example, Flux is a company that offers custom-made bindings for your snowboard. Flux is a focus differentiator because it makes a specialized product that is valued by a small market of customers who are willing to pay premium prices for high-quality, customized snowboarding equipment.

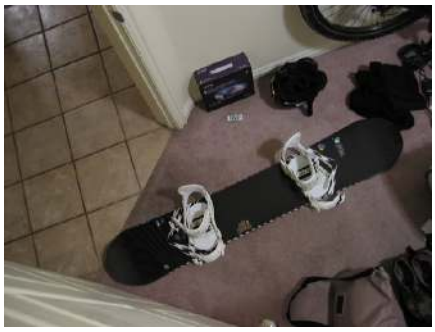


Exhibit 7.11 Snowboard bindings The Flux premium bindings on this snowboard are an example of a product on a focus-driven company. Snowboard bindings are the only products Flux markets. (Credit: Ted and Dani Percival/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Strategic Groups

When managers analyze their competitive environment and examine rivalry within their industry, they are not confronted by an infinite variety of competitors. Although there are millions of businesses of all sizes around the globe, a single business usually competes mainly against other businesses offering similar products or services and following the same generic competitive strategy. Groups of businesses that follow similar strategies in the same industry are called **strategic groups**, and it is important that a manager know the other firms in their strategic group. Rivalry is fiercest within a strategic group, and the actions of one firm in a group will elicit responses from other group members who don't want to lose market share in the industry. Take a look at Exhibit 7.12: although all of the firms shown are in the retail industry, they don't all compete directly against one another.



Exhibit 7.12 Strategic Groups in the Retail Industry (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Although some cross-competition can occur (for example, you could buy a Kate Spade wallet at Nordstrom), firms in different strategic groups tend to compete more with each other than against firms outside their group. Although Walmart and Neiman Marcus both offer a wide variety of products, the two firms do not cater to the same customers, and their managers do not lose sleep at night wondering what each might do next. On the other hand, a Walmart manager would be concerned with the products or prices offered at Target; if laundry detergent is on sale at Target, the Walmart manager might lose sales from customers who buy it at Target instead, and so the Walmart manager might respond to Target's sale price by discounting the same detergent at Walmart.



? Concept Check

1. What is competition, and what is the role of strategy in competition?
2. When does a firm have a competitive advantage over its rivals?
3. Explain the differences between the three business-level generic competitive strategies.

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7.9: Strategic Positioning

Learning Objectives

1. What elements go into determining a firm's strategic position?

A manager who has done all of the analysis described so far in this chapter has some decisions to make based on all of the information the analysis has revealed. A firm's decisions on how to serve customers and compete against rivals is called **strategic positioning**. In order to develop its position, a firm combines its understanding of the competitive environment, including the firm's own resources and capabilities, its industry situation, and facts about the macro environment. A strategic position includes a choice of generic competitive strategy, which a firm selects based on its own capabilities and in response to the positions already staked out by its industry rivals. The firm also determines which customers to serve and what those customers are willing to pay for. A strategic position also includes decisions about what geographic markets to participate in.

Most importantly, a firm's strategic position should try to be unique in some way that competitors cannot imitate quickly or easily. Competitive advantage is achieved when a firm attracts more customers or makes more profit than rivals. This cannot happen unless the firm organizes its activities to provide customers with better value than rivals.

Concept Check

1. How does strategic analysis help a firm develop its own strategic position?

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7.10: Summary

Key Terms

Barriers to Entry

Industry factors (such as high start-up costs) that can prevent new firms from successfully launching new operations in that industry.

Buyer Power

In the relationship between a firm and its customers, buyers with high power can negotiate product price or features, while buyers with low power cannot.

Capabilities

A firm's skill at coordinating and leveraging resources to create value.

Competition

Business actions a firm undertakes to attract customers to its products and away from competitors' products.

Competitive Advantage

When a firm successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do.

Competitive Environment

Factors and situations both inside the firm and outside the firm that have the potential to impact its operations and success.

Cost-leadership Strategy

A generic business-level strategy in which a firm tightly controls costs throughout its value chain activities in order to offer customers low-priced goods and services at a profit.

Demographics

Part of PESTEL that includes facts about the income, education, age, and ethnic and racial composition of a population.

Differentiation Strategy

A generic business-level strategy in which firms add value to their products and services in order to attract customers who are willing to pay a higher price.

Economic Factors

PESTEL category that includes facts (such as unemployment rates, interest rates, and commodity prices) about the state of the local, national, or global economy.

Environmental Factors

PESTEL category that examines a firm's external situation with respect to the natural environment, including pollution, natural resource availability and preservation, and alternative energy.

Environmental Scanning

The systematic and intentional analysis of a firm's internal state and its external environment.

External Environment

The aspects of the world at large and of a firm's industry that can impact its operations

External Factors

External Factors

Things in the world or industry environments that may impact a firm's operations or success, such as the economy, government actions, or supplier power. Strategic decisions can be made in response to these things but normally cannot directly influence or change them.

Focus Strategy

A generic business-level competitive strategy that firms use in combination with either a cost-leadership or differentiation strategy in order to target a smaller demographic or geographic market with specialized products or services.

Generic Business-Level Strategies

Basic methods of organizing firm value chain activities to compete in a product market that can be used by any sized firm in any industry

Industry

A group of firms all offering products or services in a single category, for example restaurants or athletic equipment.

Industry Rivalry

One of Porter's Five Forces; refers to the intensity of competition between firms in an industry.

Internal Environment

Innermost layer of a firm's competitive environment, including members of the firm itself (such as employees and managers), investors in the firm, and the resources and capabilities of a firm.

Internal Factors

Characteristics of a firm itself, such as resources and capabilities, that the firm can use to successfully compete against its rivals.

Legal Factors

In PESTEL, the laws impacting business, such as those governing contracts and intellectual property rights and illegal activities, such as online piracy.

Macro Environment

The outermost layer of elements in a firm's external environment that can impact a business but are generally beyond the firm's direct control, such as the economy and political activity.

Micro Environment

The middle layer of elements in a firm's external environment, primarily concerned with a firm's industry situation.

New Entrants

One of Porter's Five Forces, the threat of new entrants assesses the potential that a new firm will start operations in an industry.

Opportunity

A situation that a firm has the resources and capabilities to take advantage of.

PESTEL

A strategic analysis tool that examines several distinct categories in the macro environment: **p**olitical, **e**conomic, **s**ociocultural, **t**echnological, **e**nvironmental, and **l**egal.

Political Factors

PESTEL factor that identifies political activities in the macro environment that may be relevant to a firm's operations.

Porter's Five Forces

Evaluates the interconnected relationships between various actors in an industry, including competing firms, their suppliers, and their customers, by examining five forces: industry rivalry, threat of new entrants, threat of substitutes, supplier power, and buyer power.

Primary Activities

Firm activities on the value chain that are directly responsible for creating, selling, or servicing a product or service, such as manufacturing and marketing.

Resources

Things a firm has, such as cash and skilled employees, that it can use to create products or services.

Sociocultural Factors

PESTEL category that identifies trends, facts, and changes in society's composition, tastes, and behaviors, including demographics.

Strategic Analysis

Process that firms use to study and understand their competitive environment.

Strategic Group

Businesses offering similar products or services and following the same generic competitive strategy.

Strategic Positioning

Firm's decisions on how to organize its actions and operate to effectively serve customers and compete against rivals.

Strategy

Process of planning and implementing actions that will lead to success in competition.

Strengths

Resources and capabilities of a firm; what it is good at.

Substitutes

One of Porter's Five Forces; products or services outside a firm's industry that can satisfy the same customer needs as industry products or services can.

Supplier Power

One of Porter's Five Forces; describes the balance of power in the relationship between firms in an industry and their suppliers.

Support Activities

Value chain activities that a firm performs to sustain itself; do not directly create a product or service but are necessary to support the firm's existence, such as accounting and human resources.

Switching Costs

Penalty, financial or otherwise, that a consumer bears when giving up the use of a product currently being used to select a competing product or service.

SWOT

Strategic analysis tool used to examine a firm's situation by looking at its **s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats

Technological Factors

PESTEL category that includes factors such as the Internet, social media, automation, and other innovations that impact how businesses compete or how they manufacture, market, or sell their goods or services.

Threat

Anything in the competitive environment that would make it harder for a firm to be successful.

Value Chain

Sequence of activities that firms perform to turn inputs (parts or supplies) into outputs (goods or services).

VRIO

analytical tool that evaluates a firm's resources and capabilities to determine whether or not it can support an advantage for the firm in the competitive environment: **v**alue, **r**arity, **i**mitation, and **o**rganization.

Weaknesses

Things that a firm does not have good capabilities to perform or gaps in firm resources.

Summary of Learning Outcomes

7.2 Gaining Advantages by Understanding the Competitive Environment

1. What is strategic analysis, and why do firms need to analyze their competitive environment?

Strategic analysis is a systematic evaluation of a firm's situation, both internally and with respect to what is happening in the outside world. This analysis examines what the firm itself is good or bad at, how rivals in its industry are competing against it for customers, and what factors in the world environment, such as economic indicators or demographic changes, might impact the firm's ability to be successful.

Firms need to conduct this analysis in order to be aware of and prepared for changes in their competitive environment and to maximize their chance of successfully competing against rivals and sustaining their profitability and market share in their industry.

7.3 Using SWOT for Strategic Analysis

2. What is a SWOT analysis, and what can it reveal about a firm?

SWOT is a traditional analytical tool that identifies a firm's strengths, weaknesses, opportunities, and threats (SWOT is an acronym of these four factors). It is useful for conducting a quick look at the internal capabilities (strengths and weaknesses) and external events and situations (opportunities and threats) a firm is facing.

SWOT is not a comprehensive analytical tool, because the four categories for analysis are too broad and will not necessarily identify all of the factors important to a firm's success that a more thorough analysis would.

7.4 A Firm's External Macro Environment: PESTEL

3. What makes up a firm's external macro environment, and what tools do strategists use to understand it?

The external environment of a firm is composed of two primary layers: the macro environment and the microenvironment. The macro environment includes facts and situations that a firm must be aware of but cannot always influence. The macro environment is analyzed using the PESTEL analytical tool that considers a firm's: political aspects, economic indicators, sociocultural trends, demographic facts, technological changes, and environmental and legal aspects.

7.5 A Firm's Micro-Environment: Porter's Five Forces

4. What makes up a firm's external micro-environment, and what tools do strategists use to understand it?

The second layer of a firm's external environment is its micro-environment, which includes the components of a firm's industry, such as competitors, suppliers, and customers. Porter's Five Forces of industry competition (industry rivalry, threat of new entrants, threat of substitutes, supplier power, and buyer power) capture the dynamic relationships between these components.

7.6 The Internal Environment

5. How and why do managers conduct an internal analysis of their firms?

Managers cannot lead their firms to success without understanding what the firm is able to do. An analysis of the firm's resources and capabilities, as well as its gaps, is essential in determining the best path forward for the firm. A good strategy for competitive advantage capitalizes on a firm's key resources and capabilities, as identified and evaluated using the VRIO (value, rarity, imitation, and organization) analytical tool.

Resources and capabilities that satisfy VRIO criteria are the key things that a firm is best at, and these should be leveraged so the firm can compete against rivals.

7.7 Competition, Strategy, and Competitive Advantage

6. What does it mean to compete with other firms in a business environment, what does it mean when a firm has a competitive advantage over its rivals, and what generic strategies can a firm implement to gain advantage over its rivals?

Competition is the battle for customers. Firms compete against rivals offering similar products and services and try to attract customers by making sure their product or service is a little better or less expensive than those of their competitors. The firm that is most successful in this battle, measured in terms of profitability or in terms of market share, has a competitive advantage.

Generic competitive strategies are the basic templates for organizing firm activities to achieve competitive advantage in an industry. A firm will perform value chain activities, such as marketing and research and development, in order to support the overall competitive strategy it has chosen.

Following a generic cost-leadership strategy requires that a firm try to save money throughout the value chain so that it can offer customers low-priced goods and services. In contrast, differentiators add value to their products and services while performing value chain activities so that they can charge premium prices to consumers.

A third generic competitive strategy, focus, is chosen in combination with one of the other two strategies by firms that decide to target smaller geographic or demographic customer groups.

7.8 Strategic Positioning

7. What elements go into determining a firm's strategic position?

A firm develops a strategic position in response to the factors present in its competitive environment. Strategic analysis is essential in identifying and understanding the factors that a strategic position must address. The choice of strategic position factors in a firm's key resources and capabilities when choosing a generic competitive strategy, product or service to be offered, target market, and geographic reach to compete successfully against rivals in an industry. To be successful in allowing a firm to achieve a competitive advantage in its industry, a firm's strategic position should be different from its competitors' positions in the same industry and should be hard for competitors to copy so that the firm's competitive advantage lasts.

? Chapter Review Questions

1. Why do managers use strategic analysis?
2. What information does a SWOT analysis provide managers? What information might it miss?
3. Describe a firm's macro environment and how managers use PESTEL to understand it.
4. What is a firm's micro-environment, and why is it important?
5. What is an industry, and how do Porter's Five Forces help a manager trying to understand a firm's industry environment?
6. What are firm resources and capabilities, and what information does VRIO provide about them?
7. When does a firm have a competitive advantage over its rivals?
8. What are generic competitive strategies, and how are they implemented in a firm's value chain activities?
9. What do strategic group members have in common with each other? What impact do firms outside a strategic group have on those in that group?
10. How does strategic analysis help a firm develop its own strategic position? Why should that position be unique?

Management Skills Application Exercises

1. (Analytical Skills) Assume that you have been hired by a local small-business consulting firm. You have been asked by your boss to review a proposal from a client who is considering opening a new Pilates and yoga studio in a trendy part of town. Because you know SWOT analysis, you have been asked to group the following attributes about the proposed business into a SWOT analysis:

    a. The proposed location is on the same street corner as the main subway line station and three blocks from a ferry terminal that commuters use go to work.

    b. The proposed location has a vestibule and a new HVAC system.

    c. The street that the location is situated on has many small shops, restaurants, and bars and is a popular gathering place.

    d. There are many historic structures that are in need of updates, but some owners are reluctant to invest in these aging structures.

    e. The area has become gentrified over the past decade, and there is more disposable income than in the past.

    f. In addition to the young professionals, a large number of 55 and over retirees who are now empty nesters have been moving into the neighborhood.

    g. With the young professionals and empty nesters, this area has one of the lowest birth rates in the nation.

    h. The two-year lease is affordable for the business plan, but there is no guarantee of renewal after the term.

    i. There is a rumor of a spin studio opening two blocks away.

    j. The building has been updated with ramps and restrooms to accommodate disabled patrons.

    k. The local paper has interviewed the client and will be running a “Pilates Craze” feature in the upcoming weekend newspaper.

2. (Interpersonal Skills) Your instructor may assign you to a small group, and you will receive either a “Team A” or “Team B” assignment. Team A groups will need to meet for 15 minutes in a face-to-face setting, while Team B members will meet electronically either by setting up a meeting via Skype or using text messaging on their cell phones. Team A members will need to set up a time and location for their meeting, while Team B members will need to share their contact information with a team leader. Your instructor will assign a company to discuss and report on. Team A will discuss a firm’s internal environment, while team B will discuss the firm’s external environment. In class, each team will report its conclusions about its assignment and report on the benefits and challenges that meeting in person or electronically posed.

3. (Communication) Set up an interview with a manager at a local business who is involved in the strategic planning process at her company. Ask her what type of planning she is involved in (strategic, operational). Discover if she involves the employees who report to her in the planning process and how planning is tied to goal setting. Write a report on your findings. The interview should take no more than 15 minutes.

Managerial Decision Exercises

1. Select three different businesses from different industries, such as a hospitality business (hotel, restaurant, fitness center), a manufacturing company, and a not-for-profit business. Perform a SWOT analysis for each business.
2. Perform a quick PESTEL analysis of the companies listed below. What is the largest risk for each of the companies? Assume that you had $100,000 to invest in one of more of these companies. Explain how you would allocate your investment and why you chose this particular allocation.

    Uber

    Tesla

    General Motors

3. Technology has the ability to disrupt industries. You are involved in an industry that is undergoing change and disruption by taking this class. The traditional textbook industry is being disrupted by the availability of digital textbooks, and free textbooks such as this one are further impacting traditional textbook publishers. Place the following statements into Porter's Five Forces model.

a. Students have access to the material at a greatly reduced cost.

b. Authorship is funded through philanthropic donations rather than royalties paid from textbook sales revenue.

c. More students have access to the Internet than ever before.

d. Companies, governments, and students invest large sums of money in their education.

e. Traditional public educational institutions are adapting their delivery models for online learning.

f. Private companies such as Apollo (University of Phoenix) are offering lower-cost education options.

g. Bookstores now offer traditional textbooks as well as used and rental options.

h. Government legislation is urging faculty to consider lower-cost options.

Critical Thinking Case

Tesla Aims for the Mass Market

Elon Musk co-founded Tesla in 2003 with the vision of making electric cars that could rival, and even replace, traditional gas-engine cars in the consumer marketplace. At the start of the 21st century, the external environment was beginning to show favorable signs for the development of electric cars: people were becoming more concerned about the environment and their carbon footprints, and gas prices were beginning a steep climb that had already spurred the sales of hybrid gas-electric cars such as the Toyota Prius.

The automobile industry was not responding to these environmental trends, instead relying on the fact that trucks such as the Ford F-150 and Chevrolet Silverado were still the two top-selling vehicles in America in 2003. Musk saw a different future for vehicles, and Tesla introduced the all-electric Roadster in 2008. Four years later, the more practical Model S was introduced, and Tesla sales began to climb.

As a new entrant in the automobile industry, though, Tesla faced several challenges. Manufacturing and distribution in this industry are extremely expensive, and Tesla had to develop the capability of efficiently manufacturing large quantities of cars. Tesla also had to establish dealerships for its cars, although it also decided to sell cars online, taking advantage of tech-savvy consumers' comfort with online shopping. Perhaps Tesla's greatest challenge was convincing consumers to trust the new technology of all-electric cars. Range anxiety became an actual term, describing people's fear that their car batteries would run out before they reached their destinations. To combat this, Tesla developed an extensive network of charging stations so consumers could be confident that they could charge their cars conveniently.

Elon Musk has been a master of raising money to fund Tesla's efforts to successfully enter the mainstream automobile manufacturing industry; so far, Tesla's entry has cost billions of dollars. Tesla has also taken advantage of tax incentives to develop its charging stations and to sell its cars, because Tesla customers receive tax credits for the purchase of their cars. Tesla cars are not inexpensive, however, and that has limited their marketability. Most Americans cannot afford the Model S or more recent Model X's high prices (up to and exceeding $100,000).

In 2017, Tesla launched the Model 3, designed to transform the car industry by being its first mass-market, affordable model. The company started taking "reservations" for the model in 2016, promising that it would arrive with a $35,000 price tag. By mid-2017, the reservations list had reached half a million customers, creating a new problem for Tesla. How could it possibly manufacture that many cars when production levels for all of 2016 were less than 84,000 cars?



Exhibit 7.13 Tesla 3 The Tesla Model 3. (Credit: Brian Doyle/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Critical Thinking Questions

1. What PESTEL factors supported Tesla's success? Which factors posed challenges?
2. How has Tesla's strategic position changed since it was founded in 2003?
3. What kind of responses would you expect from Tesla's rivals in the automobile manufacturing industry to the Model 3's popularity?

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CHAPTER OVERVIEW

8: The Strategic Management Process - Achieving and Sustaining Competitive Advantage

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8.1: Biblical Insight



Applying the Bible to Business

"Where there is no vision, the people perish.” Proverbs 29:18. This bible scripture shows the significance of having a vision. This is true for businesses as well. Vision and mission statements drive the direction, focus, and communication of any successful organization. Senior leaders use the vision and mission as a guide to the decision-making process when establishing an organization's strategic goals and objectives.

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8.2: Introduction

Learning Objectives

1. What is the strategic management process?
2. What is the difference between a firm's vision and its mission?
3. Why is strategic analysis important to strategy formulation?
4. What are strategic objectives, levels of strategy, and a grand strategy? How are they related?
5. How and why do managers plan? Why are goals important in the planning process?
6. How and why do managers evaluate the effectiveness of strategic plans?

Exploring Managerial Careers

Strategic Leadership-Bill Gates

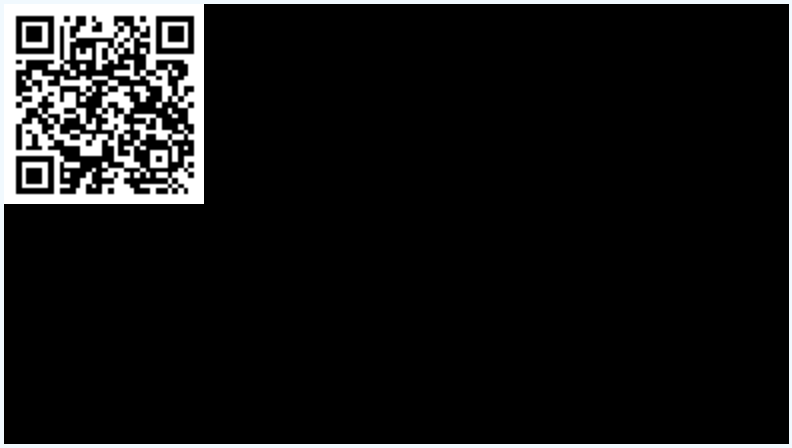


In 1975, Gates co-founded Microsoft, a company that would revolutionize the tech industry. The early days of Microsoft were marked by a strong vision for personal computing. At the time, Gates had a huge vision believing computers would become a valuable tool in every home and office. In 1987, the year after Microsoft went public, 31-year-old Gates became the world's youngest billionaire. That year, Microsoft's sales topped more than $1 million (Sullivan, 2024)

Microsoft continued to grow through the years. In 1985, the company went on to license its MS-DOS operating system to IBM for its first personal computer. The company made $61 million by releasing this new operating system. By the late 1980s, Microsoft had become the world's largest personal computer software company. In 1995, Windows 95 made its debut, 7 million copies of the new product were sold in the first five weeks. Microsoft continued to be an innovative company; adapting to technology and changing times. For example in 1995, Microsoft introduced its web browser, Internet Explorer (Sullivan, 2024)

Gates led Microsoft to invest in future tech trends preparing Microsoft for future success. This kept Microsoft relevant and competitive in the fast-paced tech industry. By focusing on the future, Gates ensured that Microsoft would not react to the market but actively shape it. Gates' strategic leadership was key to Microsoft's ability to innovate and lead in the industry (Rizvi, 2024).

Bill Gates At Concordia University



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8.3: Strategic Management

Learning Objectives

1. What is the strategic management process?

In the previous chapter, we focused on analyzing and understanding a firm's competitive environment. In this chapter, we see how the information strategic analysis provides gets put to work. The **strategic management process** is the set of activities that firm managers undertake in order to try to put their firms in the best possible position to compete successfully in the marketplace. Strategic management is made up of several distinct activities, as shown in Exhibit 8.3. This chapter will detail the role each activity plays in developing and sustaining a successful competitive position.

While Exhibit 8.3 presents strategic management as an orderly process. However, most top managers deal with all of the steps simultaneously; they engage in environmental scanning to update their analytical view of the firm, they execute strategies formulated in the past, they formulate strategies to execute in the future, and so on. While it is useful to discuss the strategic management process in a stepwise fashion, it's important to point out that the cycle occurs such that everything is being done at once.



Exhibit 8.3 The Strategy Cycle (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Concept Check

1. What activities make up the strategic management process?

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8.4: 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.

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 8.4.1: Mission and Vision as P-O-L-C Components



Figure 8.4.2: Mission and Vision in the Planning Process



Figure 8.4.1: 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-ND 2.0; Fortune Live Media – Fortune Most Powerful Women – CC BY-NC-ND 2.0.

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:

Bryant, A. (2010). "Xerox's new chief tries to redefine its culture," New York Times,

Forbes. (2010). "Profile: Anne M. Mulcahy," https://images.forbes.com/lists/2005/11/VI6W.html.

Fortune. (2006). "50 most powerful women," CNN Money, http://money.cnn.com/popups/2006/fortune/mostpowerfulwomen/2.html.

http://www.nytimes.com/2010/02/21/business/21xerox.html?pagewanted=18dpc.

Tompkins, N. C. (1992). Employee satisfaction leads to customer service. All Business.

Whitney, L. (2010). “Anne Mulcahy to retire as Xerox chairman,” CNET News. https://www.cnet.com/tech/tech-industry/xerox-ceo-anne-mulcahy-to-retire/.

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?

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 because 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 websites will expose you to the range of forms that the mission and vision statements can take. To reiterate, mission statements are longer than vision statements, often because they convey the organization's 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** that 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
3. Develop 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 8.4.1: 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, one will find the inputs into the mission statement. Toward the narrower part of the funnel is the vision statement, which has distilled down the mission in a way that can guide the development of the strategy. In the narrowest part of the funnel is 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 tension and restlessness regarding 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 Hamel and 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 the 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 they 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?



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. Beyond the relationship between mission and vision, strategy, and goals and objectives, one will 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. Regarding organizing, it is useful to think about the 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 on actions designed to accomplish desired outcomes. The strategy encourages actions that support the purpose and discourages those that do not.

To organize, one must connect people with each other in meaningful and purposeful ways. Further, a leader must connect people—human resources—with the information and technology necessary for them to be successful. Organizational 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 8.4.1: 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 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 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.

Achieving alignment between mission and vision and organizational culture can be very powerful, but culture is also difficult to change. This means that if an organization is seeking to change its vision or mission, a leader's 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 mindset (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 interdependencies. Most individuals are active in social network communities: Facebook, Instagram, LinkedIn, Reddit, and TikTok. However, these sites are 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 soymilk in U.S. supermarkets, and this mission led to his vision for and strategy behind, the firm White Wave and its Silk line of soymilk 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 the organization's need be for 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 importantly, 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 begins 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 a 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 of Johnsonville Sausage, recounted by CEO Ralph Stayer, documents how how the 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, Stayer made other important changes as well, such as decentralizing decision-making and tying individual 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, and 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 innovation, 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, 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 the 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 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 an 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
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 for strategic human resource management?

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 particularly relevant to a company's 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 that compels action. We will focus mostly on the relationship between creativity, passion, and vision in this section because organizational visions are intended to create uneasiness with the status quo and help inform and motivate key stakeholders to move the organization forward. This means that a vision statement should reflect and communicate something that is relatively novel and unique, and such novelty and uniqueness are the products of creativity and passion.

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



Creativity and Vision

Work by DeGraf and Lawrence (2022) suggests a finer-grained view into the characteristics and types of creativity. 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)
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 PLC 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 myriad new products to take business from AB's stronghold markets (Biz Journals, 2008).

The second type of creativity, *imagination*, is the form that many 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, the drive to tie this type of creativity can result in the genius of a single individual, such as Apple's Steve Jobs.

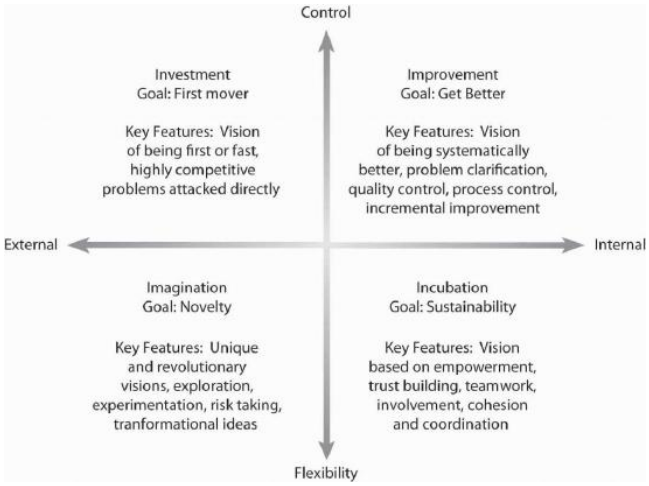


Figure 8.4.1:Four Creativity Types Adapted from DeGraf, J., & Lawrence, K. A. (2002). Creativity at Work: Developing the Right Practices to Make It Happen. San Francisco: Jossey-Bas

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 auto making 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 two creativity tools: SCAMPER and the Nominal Group Technique. This set of tools is not exhaustive but provides 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. Programmed thinking, which is logical and disciplined, 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 8.1, "Creativity through SCAMPER," provides you with the SCAMPER question steps and examples of new products or services that you might create.

Table 8.1 Creativity through SCAMPER

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

As shown in Table 8.1, by taking a topic or problem and then using SCAMPER, you can generate possible new products. It may be some combination of these SCAMPER changes that lead to highly innovative solutions. For instance, the entertainment company Cirque du Soliel has modeled its shows on the traditional circus. However, it has adapted aspects of theater and opera, eliminated animals, and reduced the number of rings from three to one. As a result, it offers a highly stylized (and much more expensive!) version of what, nostalgically, we call a circus today. Many of the ideas may be impractical. However, some of these ideas could be good starting points for a new organization or revision of the vision for an existing one.

Nominal Group Technique

The Nominal Group Technique (NGT) is a method of facilitating a group of people to produce a large number of ideas in a relatively short time (University of Wisconsin Extension Program, 2008). 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
- Pens or markers

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 the following 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 a 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 that compels 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, Blessing/White, Inc., 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" (BlessingWhite, 2008).

Engaged employees are those who are performing at the top of their abilities and are 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 (Zinkewicz, 2005). 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 that compels 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?

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 8.4.1: 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 previously stressed the importance of stakeholders to a firm's mission and vision. We also explained that organizations are 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, identify critical stakeholders, get a handle on their short and long-term interests, calculate their potential influence on the organization's strategy and take into consideration how the organization's strategy might affect the stakeholders (beneficially or adversely). Table 8.2 "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 8.2 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: its influence as either originator or steward of the organization's mission and vision, its responsibility for formulating a strategy that realizes the mission and vision, and its ultimate role in strategy implementation.

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

What are stakeholders, and why are they relevant to mission and vision? Are stakeholders equally relevant to all parts of P-O-L-C, or only mission and vision? What is stakeholder analysis? What are the three identification steps? How does stakeholder analysis help you craft a mission and vision statement? Which important stakeholders might you intentionally exclude from a mission or vision statement? What are the risks of not conducting stakeholder analysis as an input to the formulation of your mission and vision?

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 tend 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

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

Stakeholders, Mission, and Vision

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

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

Identifying Stakeholders

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

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

Figure 8.4.2: Stakeholder Mapping 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 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 with whom the firm interacts 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 it is 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, which may be adversely affected? Where are various groups located? Who belongs to them? Who represents them?



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* breaks out one way you might manage your mission/vision development checklist. Let's dive into the development process first (InformationWeek Staff, 2004).

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 8.4.1: 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 must practice what is laid out in the mission and vision—in other words, "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 an external audit team**: An external team brings objectivity, plus a fresh perspective.

Mission and Vision-Development Process

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

Content

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

Recognizing that the vision statement is derived from aspects of the mission statement, it is helpful to start there. Richard O'Hallaron and his son, David R. O'Hallaron, in *The Mission Primer: Four Steps to an Effective Mission Statement*, suggest that you consider a range of objectives, both financial and non-financial (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 statements:

- Use the present tense, speaking as if the business has already become what you are describing
- Use descriptive statements describing what the business looks like and 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. However, 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 will 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 will 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 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 the 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—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 mission 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 do not 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* 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" (InformationWeek Staff, 2004). 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?

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 8.4.1: Your mission and vision reflect your personal and professional purpose and direction. Shawn Harquail – Kayak Tour of Mangroves, Lucayan National Park. – CC BY-NC

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 **b**ig, **h**airy, **a**udacious **g**oal.

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 and now called: https://www.livecareer.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 (Purpose Brand, 2021). Mission and vision statements are designed to provide direction and thrust to an organization, an enduring statement of purpose. A mission and vision statement acts 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 in 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 the team that developed a 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 (most important value!)
   - Analytical
   - Compassionate
   - Decision maker
   - Positive
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 helping hand 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 those 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, extroverted, 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, and 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 and 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. Based on 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 (BHAG) 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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8.5: Firm Vision and Mission

Learning Objectives

1. What is the difference between a firm's vision and its mission?

The first step in the process of developing a successful strategic position should be part of the founding of the firm itself. When entrepreneurs decide to start a business, they usually have a reason for starting it, a reason that answers the question "What is the point of this business?" Even if an entrepreneur initially thinks of starting a business in order to be their own boss, they must also have an idea about what their business will do. Overall, entrepreneurs start businesses for a variety of reasons. A **vision statement** is an expression of what a business's founders want that business to accomplish. The vision statement is usually very broad, and it does not even have to mention a product or service. The vision statement does not describe the strategy a firm will use to follow its vision—it is simply a sentence or two that states why the business exists.

While a firm's vision statement is a general statement about its values, a firm's **mission statement** is more specific. The mission statement takes the *why* of a vision statement and gives a broad description of how the firm will try to make its vision a reality. A mission statement is still not exactly a strategy, but it focuses on describing the products a firm plans to offer or the target markets it plans to serve.

Exhibit 8.4 gives examples of vision and mission statements for the Walt Disney Company and for Ikea. Notice that in both cases, the vision statement is very broad and is not something a business could use as a strategy because there's simply not enough information to show what kind of business they might be. The mission statements, on the other hand, describe the products and services each company plans to offer and the customers each company plans to serve to fulfill their vision.

	Vision ⟶ Mission	
	Broad: *Why do we exist?*	**Focused: *How will we accomplish our vision?***
Disney	**"To make people happy."**	"The mission of The Walt Disney Company is to be one of the world's leading producers and providers of entertainment and information. Using our portfolio of brands to differentiate our content, services and consumer products, we seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world."
Ikea	**"To create a better everyday life for the many people."**	"We shall offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them."

Exhibit 8.4 Vision and Mission Statements (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

What's interesting about vision and mission statements is that many companies confuse them, calling a very broad statement their mission. For example, Microsoft says that its mission is "to help people around the world realize their full potential."[4] By the description above, this would be a good vision statement. However, Microsoft's official vision statement is to "empower people through great software anytime, anyplace, and on any device" (The Marketing Blender, 2017). Although the second statement is also quite broad, it does say *how* Microsoft wants to achieve the first statement, which makes it a better mission statement than vision statement.

Why are vision and mission statements important to a firm's strategy for developing a competitive advantage? To put it simply, you can't make a plan or strategy unless you know what you want to accomplish. Vision and mission statements together are the first building blocks in defining why a firm exists and in developing a plan to accomplish what the firm wants to accomplish.

Concept Check

1. What does a mission statement explain about a firm that a vision statement does not?
2. What are the similarities and differences between vision and mission?

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8.6: The Role of Strategic Analysis in Formulating a Strategy

Learning Objectives

1. Why is strategic analysis important to strategy formulation?

In the previous chapter, you read about the various levels of analysis that a manager carries out in order to understand their firm's competitive environment. A **strategic analysis** of a firm's external environment (the world, competitors) and internal environment (firm capabilities and resources) gives its managers a clear picture of what they have to work with and also what needs to be addressed when developing a plan for the firm's success. Analysis comes early in the strategic process because the information a manager gets from the analysis informs the decision-making that follows. The information is so critical that entrepreneurs writing business plans (before the business even exists) do this analysis to understand if their business idea is feasible and to understand how to position their business relative to existing competitors or potential customers in order to maximize their odds of success. Exhibit 8.5 outlines just a few of the questions that strategic analysis tools can help answer.



Exhibit 8.5 Some Questions That Strategic Analysis Should Answer

For an example of how the strategic tools help inform decisions, look back at the Walt Disney mission and vision in Exhibit 8.4. Imagine if you were Mr. Walt Disney today, and you wanted to start a company with a vision of making people happy in the 21st century. What products or services would you plan to offer? A PESTEL analysis would tell you that technology is an important part of entertainment and that sociocultural trends include people's preference for on-demand entertainment, to be convenient and compatible with their busy schedules. Disney's mission statement is broad enough about products and services to include a wide variety of offerings (they are thinking about the future, too!), but if you were starting this company today, where would you start? Would you make movies for movie theaters or develop a way to offer video entertainment online? Would you make console video games or phone apps? Who would your competition be, and what do they offer? How could you offer something better or cheaper?

Managers learn about the conditions that their business will have to operate in by doing strategic analysis, and understanding those conditions is required in order to develop the plans and actions that will lead to success.

Concept Check

1. What strategic analysis tools from the previous chapter would a manager use when planning a strategy for an existing business? What tools would be most helpful for a start-up business?

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8.7: Strategic Objectives and Levels of Strategy

Learning Objectives

1. What are strategic objectives, levels of strategy, and a grand strategy? How are they related?

Once a strategic analysis has been completed, the next step in the strategy process is to establish strategic objectives. At this point, the manager has decided why the company exists and how it will try to fulfill its mission. Strategic analysis has provided information about customer preferences, competitors, and the firm's resources and capabilities. Now it is time to start planning for success.

Strategic objectives

Strategic objectives are the big-picture goals for the company: they describe what the company will do to try to fulfill its mission. Strategic objectives are usually some sort of performance goal—for example, to launch a new product, increase profitability, or grow market share for the company's product.

Exhibit 8.6 shows what might be some strategic objectives for Disney. To make people happy (Disney's vision), Disney focuses on entertainment (its mission). Top executives then decide each year what entertainment products the company will offer. Because Disney is a large corporation (more on that shortly), it has a variety of resources available to create entertainment products to offer. For example, they may decide to release three movies this year, as well as build a new theme park and create five new shows for their television network. In reality, the strategic objectives at Disney are much more complex because some of these choices involve long-term efforts (they cannot build a theme park in one year).

Exhibit 8.6 A Possible Strategic Path from Vision to Objective for Disney (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)



Exhibit 8.6 A Possible Strategic Path from Vision to Objective for Disney (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Levels of Strategies

Once a firm has set its objectives, it then must turn to the question of how it will achieve them. A **business-level strategy** is the framework a firm uses to organize its activities, and it is developed by the firm's top managers. Examples of business-level strategies include cost leadership and differentiation. These strategies are pursued by businesses with a single product or a range of products.

For example, imagine that you own a coffee shop. You aren't Starbucks—you are a local shop in your neighborhood, and you run it yourself. You have employees, but you are the manager, owner, and all-around decision-maker. While developing your vision and mission statements, you have already made some basic decisions about how your shop will operate. For example, you have chosen to either offer quick, inexpensive coffee (cost leadership) or a full-service coffee experience (differentiation). That decision impacts whether or not you choose premium or discount suppliers, how your shop is decorated, and how many employees you have to offer

attention (service) to your customers. A business-level strategy guides a company in how they approach the activities in the value chain. Operations, for example, would focus on efficiency for a cost leader and focus on adding value for a differentiator.

When you develop strategic objectives for your shop, you will decide whether or not you want to try to attract more customers (grow), maintain your business at its current level, or shrink your business (perhaps you feel you don't have enough time to spend with your family). If you decide that your objective is to grow, for example, you should set a specific target, say, to grow revenue by 10%. Once you set that specific objective, you can exhibit out exactly what business-level actions you will need to take to reach that target.

Even if a business is much larger than a local coffee shop, the strategic objectives pursued by these larger companies are not significantly different in concept. Large companies such as Nike or Apple, which have many different business units, develop strategies at several levels. Each individual business unit (say Nike Basketball) will have a manager who decides the objectives for that unit, just as in the coffee shop example. However, the company as a whole will have a chief executive officer (the top manager for the company) who develops strategy for the entire corporation. **Corporate strategy,** the broadest level of strategy, is concerned with decisions about growing, maintaining, or shrinking very large companies. At this level, business-level strategy activities, such as an advertising campaign to attract new customers for a single product line, are not going to be enough to significantly impact the company as a whole.

The corporate CEO essentially manages a group of businesses (unless the firm operates as one business unit) and develops strategies to create success for the overall group. Think of the group of businesses as an investment portfolio: investors try to have a diverse set of investments to spread risk and maximize the performance of the overall portfolio. On any given day, an investment that isn't doing so well should be offset by one that is doing well. Corporate strategy tries to achieve the same thing, and CEOs have to weigh the pros and cons of each business unit and how it is contributing to the success of the overall corporation. For example, a company that has business units that do well in the winter (ski resorts) will try to also have business units that will perform in the summer (swimming pools) to reduce the risk of having periods of low revenue. One tool that corporate strategists use to understand how each of their businesses contributes to the corporation as a whole is the **BCG Matrix**, illustrated in Exhibit 8.7.



Exhibit 8.7 The BCG Matrix (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The BCG Matrix gives managers a quick picture of which business units are doing well and which are not. The tool has recommendations for businesses in each quadrant—for example, a business in the dog quadrant should be sold or closed. Cash cows provide income to the corporation, and stars provide growth. A CEO is always trying to balance the group of business units throughout the quadrants to maximize overall corporate performance. Note that the BCG Matrix is not applicable for firm's that operate in one business unit.

To achieve the scale of growth necessary to meet corporate strategic objectives, a CEO must find ways to develop entirely new business units or reach brand-new markets. For example, for Walmart to grow their 2017 revenue by 5%, they would need to add $25 billion in new revenue. That's more revenue than opening some new stores could generate. CEOs have several ways of growing their corporations, as shown in Table 8.1.

How Grand Strategies Are Translated into Objectives and Actions

	Grand Strategy	Strategic Objective	Potential Action
Business-Level Strategy	Growth	Increase business revenue by 25%	• Introduce a new product. • Expand to a new location.
Corporate-Level Strategy	Growth	Increase corporate revenue by 10%	• Acquire a competitor. • Expand to a new country. • Develop a business in a new industry.
International Strategy	Growth	Attract 10% overall market share in a new country	• Export products to that country. • Acquire a local company in that country to gain their customers.

Table 8.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

In Walmart's case, for example, growing has meant expanding its online capabilities to better compete with Amazon. They have acquired new companies to support this goal, including Shoebuy, Jet, ModCloth, and Flipkart to reach customers and increase their online product selection, as well as Parcel, to build delivery services (CBInsights, 2018).

International strategy is similar to corporate strategy because it is concerned with the large-scale actions involved in entering a brand-new geographic market. For companies operating internationally, strategic questions focus on how to successfully enter and compete in a foreign market. International strategy can combine with business-level or corporate-level strategies because a growth strategy at either scale can involve entering new markets to reach new customers.

The Grand Strategy

At all three levels, companies choose a **grand strategy** in response to the first question they should ask themselves: does the firm want to grow, strive for stability, or take a defensive position in the marketplace? Often, the choice of a grand strategy is based on conditions in the business environment because firms generally want to grow unless something (such as a recession) makes that difficult. Note that a grand strategy and a corporate strategy can overlap significantly.

- A **growth strategy** involves developing plans to increase the size of the firm in terms of revenue, market share, or geographic reach (often a combination of these, as they can overlap significantly). Walmart is implementing a growth strategy with the acquisitions discussed in the corporate strategy section.
- A **stability strategy** is a strategy for a company to maintain its current income, market share, or geographic reach. A firm usually works to maintain a stable position when the alternative is to lose ground in one of those categories, for example because of competition or economic factors. In today's business environment, publicly held firms rarely aim solely to maintain the status quo, because shareholders and the stock market reward firm growth.
- Firms pursue **defensive strategies** in the face of challenges. A company that is struggling may decide to shrink its operations to reduce costs to survive, for example. A company facing strong new competition may have to radically rethink its product offerings or pricing in order not to lose too much market share to the newcomer. A technological innovation may make a company's products obsolete (or at least less attractive), forcing it to work to catch up to the new technology. Ford made a defensive decision when it recently decided to stop selling sedans in the United States because of slow sales compared with those of trucks and SUVs.

Operationalizing a Grand Strategy

A firm operationalizes its choice of a grand strategy differently at each level of strategy (business, corporate, international). At the business level, a growth strategy means that the manager will have to develop ways to grow the business by developing new products or expanding the customer base for existing products, either at home or abroad. Expanding a corporation can take a wider variety of forms. The CEO can develop new businesses, expand to new countries, acquire or merge with competitors, or perform previously outsourced activities. International expansion can be accomplished by exporting goods to another country or by

acquiring a similar firm in another country to establish the company's presence in that country. In all three of these cases, the grand strategy would be growth, and the strategic objectives could be expressed in terms of revenue growth, profit growth, market share growth, or even share price growth. Table 8.1 outlines how a grand strategy can be used to develop specific company actions.

? Concept Check

1. What is the difference between strategic objectives and a strategy?
2. Describe the three levels of strategy and what a manager developing strategy at each level is concerned with.
3. What is a grand strategy, and how does it relate to strategic objectives and the three levels of strategy?
4. What are the three grand strategies, and why would firms pursue each of them?

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8.8: Planning Firm Actions to Implement Strategies

Learning Objectives

1. How and why do managers plan? Why are goals important in the planning process?

When managers create strategies, they are making plans for how their firm will compete in the marketplace and what actions the firm will have to undertake to compete. A **plan** is a decision to carry out a particular action to achieve a specific goal. A plan includes decisions about when and how actions should be accomplished and what resources will be required to complete the actions. Because planning is one of the basic functions of management, a good manager should have good goal-setting skills, technical knowledge about the tasks necessary to reach goals, time-management skills, and the organizational skills required to arrange company resources to be available to complete the planned tasks. Planning is a combination of deciding what needs to be done, figuring out how to do it, assigning roles to people and providing them the resources to complete their tasks, and overseeing the work to make sure it gets done correctly and in a timely manner.

Managing Change

Technology and Innovation: Amazon Puts Brick-and-Mortar Retailers on the Defensive

Amazon.com has become the place everyone buys from. It wasn't always that way, though. In 1995, Jeff Bezos founded Amazon in the garage of his house as an online book-selling company. Even then, however, he had a bigger mission: he wanted Amazon to be "an everything store." In a little over two decades, Bezos achieved his vision by growing Amazon in almost every possible way. Amazon reaches across international borders, with 14 country-specific websites, and has expanded product offerings to include almost anything a shopper might be looking for. They have developed their own products, such as the Kindle reader and Echo/Alexa digital home assistant, and now, with the acquisition of Whole Foods grocery stores, Amazon operates physical "brick-and-mortar" stores. Amazon uses the expertise it has developed along the way to serve other online retailers by hosting its stores and also by offering other tech services.

Amazon's online business model has transformed how people shop, which has impacted the retail industry. Malls and brick-and-mortar stores have struggled to match Amazon's prices, selection, and convenience. Exhibit 8.8 shows the stock market's reaction to retail's struggles: Amazon's share price has soared even as shares of stores such as Macy's and Best Buy have lost value.

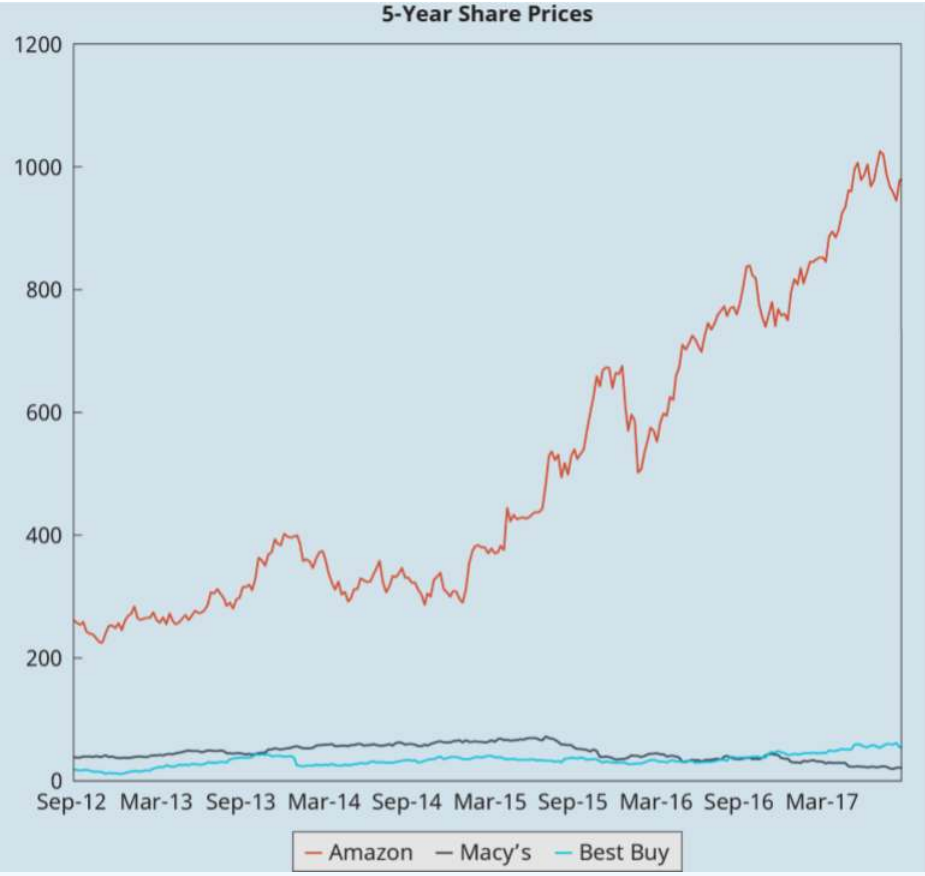


Exhibit 8.8 Share Price Comparison: Amazon, Best Buy, and Macy's (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

How have traditional brick-and-mortar retailers adjusted their strategies and objectives in response to changing customer shopping habits? Clothing retailers such as Macy's have had to adopt defensive strategies by lowering prices, reducing the number of locations, and expanding their own online sales capabilities. Big-box stores such as Best Buy, in an effort to sustain their business, have fought back against "showrooming," the process that occurs when a customer visits a brick-and-mortar store to check out a product in person and then goes home to order it online. To combat this practice, big-box stores offer installation services and price-match the online retailers.

The transformation of the retail industry has hurt some stores, such as Macy's, whose share price has declined as they shrink their operations to try to survive. Best Buy, on the other hand, is trying to adapt by choosing defensive actions that will maintain its operations. Best Buy has had some success in figuring out how to attract buyers in the era of online retail, and market investors have approved their actions, as shown in their share price increases. Will these retailers survive over the long term? It's hard to say. Macy's and JCPenney announced that they were closing stores, and Sears filed for bankruptcy in 2018. Analysts predicted the death of Best Buy for years and still think that over the long term, physical retail stores are going to have to become service providers to differentiate themselves from product retailers such as Amazon. For example, in 2002, Best Buy acquired Geek Squad, a computer repair company, to provide in-home computer repair services.

Critical Thinking Questions

1. What PESTEL forces have contributed to the transformation of the retail industry?
2. Amazon has entered into the brick-and-mortar store business with the acquisition of Whole Foods. Do you think this is a good move or a bad move for Amazon? Why?
3. What strategic actions do you think a store like Macy's can undertake to survive in the current retail industry?



Exhibit 8.9 Amazon's aggressive strategy has forced retailers such as Macy's to shutter some of their underperforming stores, like this one in downtown Miami. (Credit: Phillip Pessar/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Goal Setting

To examine the planning process, we need to start by understanding what the planning is for. A **goal** is something that you are trying to accomplish, and any firm will have many items on its list of things to accomplish. Consider the situation of a Walmart store in a college town. When it's time for students to arrive back to school in the fall, the store needs to be ready with all the products students need when they move in. The Walmart store manager will plan months in advance and use information learned from the previous year's sales to decide what products to order and how many, and when to have extra staff in the store to efficiently check out increased numbers of shoppers. Note that because Walmart is a global firm, goals will likely be prescribed from a higher level and the store manager's responsibility would be to functional strategy response.

The manager's plans will take into account the lead time for ordering products to make sure that mini refrigerators and twin XL sheets arrive and can be stocked in the store in time for the back-to-school rush. Preparing for the back-to-school season may involve reducing prices on other items to get them out of the way to make room for all those small refrigerators, and hiring and training additional employees so that there will be enough associates to help students and their parents. The manager's ultimate goal is to have a successful back-to-school sales season, but achieving that goal will involve completing tasks such as making product-selection decisions, meeting ordering deadlines, and setting intermediate goals for hiring and training additional employees.

Setting Good Goals: The SMART Framework

Good goals have a few common characteristics and Exhibit 8.10 presents a framework for creating good goals.



Exhibit 8.10 SMART Goals (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The **SMART framework** can be applied to business or personal goals. A good goal should be specific, measurable, achievable, relevant, and time bound.

Say you want to do well in this class. You need to turn that into a specific goal, because "doing well" is a little vague. Make the goal more *specific* by stating that your goal is to get an A in this course. Is this goal *measurable*? Well, yes: grades are good examples of performance measures. Is your goal *achievable*? That's something you have to think about yourself: Do you usually get good grades? Are you able to put in the time to study the course material? Is the goal *relevant* to the achievement of a larger objective such as graduating with a good overall grade point average? If so, then getting an A in this class would contribute to that larger goal. Will you have *time* to accomplish your goal? Class-grade goals are inherently time-bound because the class ends on a certain date. So it's possible that getting an A in this class is an overall SMART goal. To achieve it, however, you have to set some shorter-term goals. For example, you should set a SMART goal for getting an A on the next exam.

The Planning Process

Exhibit 8.11 illustrates the planning cycle. It looks a lot like the strategy cycle shown in Exhibit 8.3 because they have a lot in common. In fact, the planning process is an integral part of the strategy cycle because developing objectives, creating strategies, and implementing firm-wide activities all require extensive planning.

The first step in planning is to set a goal to be accomplished. Making sure that the goal checks off all of the SMART criteria will help make the planning process easier and more likely to be successful, so be sure to spend some time developing a good goal.

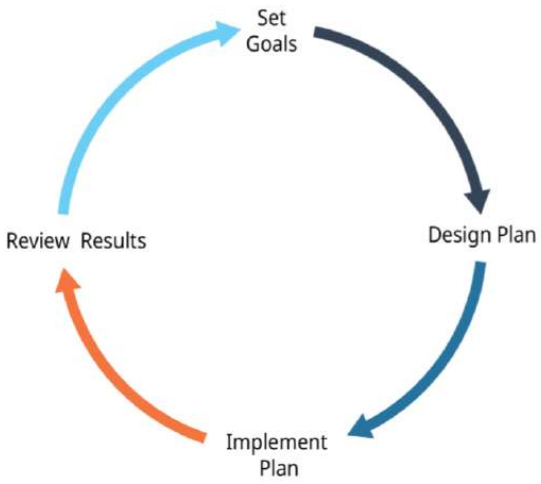


Exhibit 8.11 The Planning Cycle (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Once you've figured out your goal, the next step is to design the plan. "Designing the plan" involves several distinct activities, so let's break it down into what needs to happen. Think of planning as a problem-solving exercise. A plan is a set of actions developed to accomplish a goal, and *planning* is essentially figuring out what those actions should be. The goal is the endpoint, and the plan answers the question, "How do we get there?"

When designing a plan, a manager may think of many ways to achieve a goal. He or she can have a group of employees brainstorm to come up with ideas. Not all of the potential ideas are likely to be feasible, however. Part of the manager's task in designing a plan is to coordinate various ideas with a firm's resources and capabilities and its time constraints (see Exhibit 8.12). When does the goal need to be accomplished? What other resources does the firm need to complete the project?

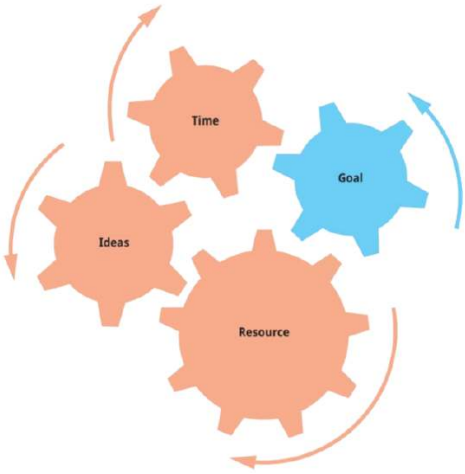


Exhibit 8.12 Planning Requires Coordination (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Designing the plan becomes a puzzle of figuring out what is the best way to reach a goal with the resources the firm has or can reasonably get in the time available. There is no prescription for this, and the best way to learn how to plan is to practice. Fortunately, you probably have a pretty good amount of practice already because you've been planning in one form or another for a long time. You have planned study time, team practices, club events, and even meals. Strategic planning uses the same skills in a new context. Planning a product launch may sound complicated, but so is planning a wedding. The scale and scope of the things a manager must coordinate to reach company goals may be larger than what you are used to, but the specific skills are likely not new at all.

For example, let's take a look at the challenge Tesla is facing.

Tesla has developed a mass-market car and has a line of about half a million customers waiting to buy one. Until now, Tesla has been more of a boutique car maker, manufacturing small numbers of cars that they are able to sell at high prices. The Model 3, however, has been specifically conceived as an affordable car that almost anyone can buy. The brand and reputation Tesla has built with its premium cars have generated a lot of enthusiasm and demand for this new model. So, Elon Musk, CEO of Tesla, is planning to make cars in larger numbers and more quickly than ever before.

What's Tesla's goal?

Manufacture cars at a rate of 500,000 per year to meet demand. Is this a SMART goal? Analysts around the world are arguing over this (is it achievable?), but it's the goal that Tesla is focusing on, so Musk has to design a plan to reach that goal. What resources does Tesla need to reach this level of production? They developed a car that was easy to manufacture because they knew that they would want to build it in large numbers. Still, they need manufacturing facilities, parts, and production employees. To get these resources, they need money. Elon Musk is a spectacular fundraiser, but they need billions of dollars to develop manufacturing capabilities on this scale. So while Tesla builds the world's largest factory in Nevada, called the Gigafactory, Musk continues to raise funds.

Components (specifically the batteries) are also an issue for the Model 3, and Musk has built his giant factory in part to manufacture the hundreds of thousands of batteries needed to power the Model 3. Tesla's planning involves many interrelated activities, and figuring out what the activities are, what resources Tesla needs to perform the activities, and how to obtain resources that they need but don't have yet are the challenges Elon Musk is tackling. Tesla is a fascinating company that is multifaceted. Serious questions have been raised about their ability to produce enough cars, and an examination of more recent commentary is encouraged.

Implementing Plans for Different Levels of Firm Activity and Time Horizons

Developing plans happens simultaneously at multiple levels in any company. Plans, as in our earlier grade example, often require different steps to achieve a large-scale objective. If a firm decides on growth as a grand strategy, actions at every level of firm activity should contribute to firm growth, and managers at all of those levels should develop plans so that their part of the firm is working to implement the growth strategy. A grand strategy cascades throughout the company, becoming more and more specific until front-line employees are working on specific tasks that support the grand strategy.

Time is an important consideration when top managers develop company goals and the plans to achieve them. In general, firms have two timespans that they plan for: short term and long term. A **short-term strategic plan** is one that can be accomplished in a year or sooner. A **long-term strategic plan** is developed when an objective cannot be accomplished in less than a year. Companies generally have both scales of plans in place at any given time: short-term plans might involve quarterly sales goals, for example, but a firm might have a longer-term goal of establishing operations in another country or building a new facility. Tesla's Gigafactory and Apple's new headquarters at Apple Park in Cupertino, California, are both multiyear, multibillion-dollar projects, and so would be good examples of long-term plans. In Tesla's case, the Gigafactory was initially planned many years ago when the company knew that it wanted to mass-produce cars at the scale required for the Model 3 (Tesla, 2017).

Scale Levels of Planning

Another dimension that impacts strategic planning is scale. We have already looked at some large-scale planning concepts, such as business-level and grand strategies. However, the day-to-day planning that managers do to take steps toward those bigger objectives is key to achieving success. Exhibit 8.13 shows the typical levels of planning going on in a company at any given time.

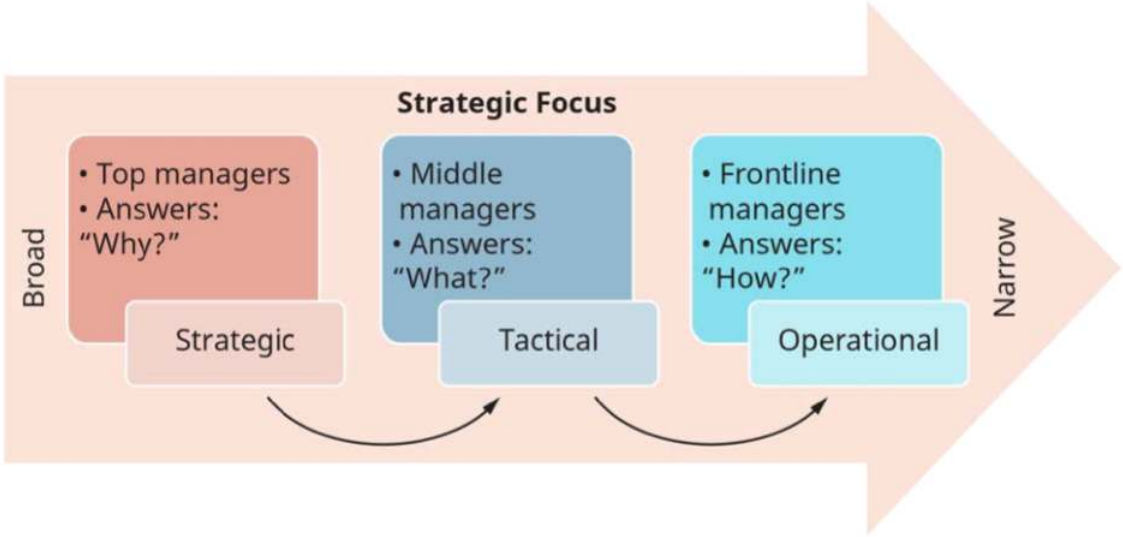


Exhibit 8.13 Levels of Strategic Planning (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Note that if you compare Exhibit 8.13 to Exhibit 8.6, the "what" and "how" are switched. The switch is a scale switch. Vision and mission are both conceived at the broadest scale, and so even the "how" of the mission is a large-scale idea. In contrast, when managers are planning, the "how" of operational planning lays out precise actions and steps to follow to achieve a specific objective.

Let's look at the levels one by one. **Strategic planning** is what we've been discussing so far. It's the high-level planning performed by company executives to set the overall direction of the company. Grand strategies are part of strategic planning, as are business-level strategies such as cost leadership. Strategic planning connects the company's actions back to its vision and mission statements (the "why does this company exist" question).

Tactical planning is mid-level planning that consists of broad ideas of what the company should do to pursue its mission. This is the sort of planning done by division managers. For example, Walmart division managers carry out the company's growth and cost-leadership strategies by finding ways for the company to grow and continue to be able to offer low prices. They may decide where to locate distribution centers to maximize store-stocking efficiency, which manufacturers of goods they can buy inventory from at low prices, and where to build new stores to attract more customers.

Operational planning lays out the front-line activities that each employee in the company will do to advance the tactical plans. A McDonald's restaurant manager develops operational plans, but you might recognize them more as employee schedules or promotional plans. Operational plans are the daily activities required for the company to function, including ordering inventory or supplies, scheduling workers and defining their work tasks, and developing sales goals and promotions to help achieve those goals. At McDonald's, as at other companies that pursue a cost-leadership strategy, scheduling enough employees to work in the restaurant at specific times to keep the store functioning smoothly without scheduling more than you need (and incurring excess labor costs) is a critical task for the manager, and doing that task successfully is how the manager contributes to the company's larger cost-leadership strategy.

Implementing Planned Strategies

Implementation of planned strategies refers to the execution of a strategy by assigning tasks for people to carry out to accomplish the company's strategic goals. Although a manager may talk about "implementing a differentiation strategy," the real implementation of a strategy happens at the bottom of not just the strategy hierarchy, but the organizational hierarchy, in the actions of operational employees who carry out planned tasks that add value to the company's product. Such tasks include research and development to add unique features, monitoring manufacturing to ensure company products meet high-quality standards, and marketing the product to add brand value in the eyes of consumers.

Concept Check

1. What are the three levels of planning, and what kinds of plans do managers develop at each level?
2. Why is strategic implementation most commonly carried out at the operational level?

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8.9: Measuring and Evaluating Strategic Performance

Learning Objectives

1. How and why do managers evaluate the effectiveness of strategic plans?

The last step in the strategy cycle in Exhibit 8.3 is measuring and evaluating performance. The “M” in SMART goals is also about **measurement**. A company’s actions need to be measured so that managers can understand if the firm’s strategic plans are working. Any action in a plan should be designed so that the people performing the action and the manager who is supervising employees can understand whether or not the action is accomplishing what it was designed to. You have been living in this sort of framework all of your life. For many life goals, standards exist to measure achievements. For example, students are given standardized tests to see if they are learning what they are expected to, and the results are used to assess the effectiveness of education at all levels.

In businesses, measurement is also a fact of life. Investors decide whether or not to invest in a particular company based on its performance, and publicly held companies are required to disclose their financial performance so investors can make informed decisions. So the overall performance of a business is often defined by its financial measures, but how do they make sure their financial performance will make investors happy? Strategy. Firms make strategic plans to be successful. This chapter has explained the steps of making those plans, but a final step closes the circle of the strategy cycle. Checking to see if that success is happening is as important as making the plans in the first place.

Performance measurement comes in many forms, from financial reports to quality measures such as defect rates. Any activity a firm can perform can have a performance measure developed to evaluate the success of that activity. Table 8.2 lists a few common firm objectives and how actions to achieve them might be evaluated. Evaluation involves setting a performance standard, measuring the results of firm activities, and comparing the results to the standard. One specific form of evaluation is called **benchmarking**, a process in which the performance standard is based on another firm’s superior performance. In the hospitality industry, for example, Disney theme park operations are used as standards for other companies in the theme park industry. Universal theme parks, for example, likely compare their customer satisfaction to Disney’s to evaluate whether or not they are also offering a superior park experience to their customers.

Three Different Actions to Support a Differentiation Strategy and Ways to Measure Results

Strategic Plan	Tactical Plan	Operational Plan	Performance Measure
Product differentiation	Innovation	Hire three engineers to develop new products.	Number of new products launched
Product differentiation	Increase customer satisfaction	Improve customer service with hiring and training program for customer service associates.	Customer complaints per 10,000 products sold
Product differentiation	Quality improvement	Reduce defective products by improving manufacturing process accuracy.	Defect rate per 10,000 units produced

Table 8.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Performance evaluation closes the strategy cycle because of what managers do with the feedback they get in the evaluation process. When a manager compares performance with a standard, he is deciding whether or not the performance is acceptable or needs to be improved. The strategy cycle is a process managers use to achieve an advantage in the marketplace, and the measurement and evaluation stage tells managers whether the advantage is being achieved. If firm performance meets or exceeds objectives, then the manager reports the success to middle and upper-level managers. The company CEO may develop more ambitious objectives based on that success, and the strategy cycle starts over. If performance fails to meet objectives, the operational manager must develop new actions to try to meet the objectives or report to higher-level managers that the objectives cannot be met. In this case, a new round of operational planning begins, or upper managers examine their strategic plan to see if they need to make adjustments.

The strategy process is always circular. Performance feedback becomes part of the strategic analysis of the firm's capabilities and resources, and firm leadership uses the information to help develop better strategies for firm success.



? Concept Check

1. Why is performance evaluation critical in strategic planning?
2. How does the strategic planning process inform itself?

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8.10: Summary

Key Terms

BCG Matrix:

a tool used to evaluate the various business units in a corporation.

Benchmarking:

a performance evaluation technique where the standard for a firm's performance is based on another firm's superior performance.

Business-Level Strategy:

ways that single-product firms organize their activities to succeed against rivals; at this level, include cost leadership and differentiation.

Corporate Strategy:

the broadest level of strategy, concerned with decisions about growing, maintaining, or shrinking very large companies.

Defensive Strategy:

a grand strategy pursued by companies facing challenges.

Goal:

something that a firm is trying to accomplish; can also be called an objective.

Growth Strategy:

a grand strategy to increase the size of the firm in terms of revenue, market share, geographic reach, or a combination of these elements.

Implementation:

the execution of a strategy by planning and assigning actions to employees to carry out to accomplish the company's strategic objectives.

International Strategy:

the level of strategy concerned with the large-scale actions involved in entering a brand-new geographic market.

Long-Term Strategic Plan:

company actions to achieve an objective that will take a year or longer to accomplish.

Mission Statement:

a general description of how the firm will try to accomplish the firm's vision.

Operational Planning:

first-line strategic planning consisting of specific daily and short-term actions that employees will perform to make the company function.

Performance Measurement:

the evaluation of firm activities to determine the success of that activity in helping the firm reach its strategic objectives.

Plan:

a decision to carry out a particular action to achieve a specific goal, including decisions about when and how the action should be accomplished and what resources will be required to carry out the action.

Short-Term Strategic Plan:

company actions to achieve an objective in a time frame of a year or less.

SMART Framework:

an acronym for the characteristics of good goals: specific, measurable, achievable, relevant, and time-bound.

Stability Strategy:

a grand strategy for a company that wants to maintain its current income, market share, or geographic reach. .

Strategic Analysis:

the systematic examination of a firm's internal and external situation that informs managerial decision-making.

Strategic Management Process:

the set of activities that firm managers undertake to try to put their firms in the best possible position to compete successfully in the marketplace.

Strategic Objectives:

the big-picture goals for the company: what the company will do to try to fulfill its mission.

Strategic Planning:

connects the company's actions back to its vision and mission statements.

Tactical Planning:

mid-level strategic planning consisting of broad ideas of what a company should do to pursue its mission.

Vision Statement:

a broad expression of what a business's founders want that business to accomplish.

Summary of Learning Outcomes

8.2 Strategic Management

1. What is the strategic management process?

The strategic management process is the set of activities that firm managers undertake to put their firms in the best possible position to compete successfully in the marketplace. Strategic management is made up of several distinct activities: developing the firm's vision and mission; strategic analysis; developing objectives; creating, choosing, and implementing strategies; and measuring and evaluating performance.

8.3 Firm Vision and Mission

2. What is the difference between a firm's vision and its mission?

A firm's vision is a broad statement expressing the reason for the firm's existence and what it hopes to accomplish. The mission statement explains (still broadly) how the firm intends to fulfill its vision—for example, by stating what products or services the firm will offer or what customers it wants to serve.

8.4 The Role of Strategic Analysis in Formulating a Strategy

3. Why is strategic analysis important to strategy formulation?

Strategic analysis produces information that managers need to develop appropriate strategies for their firms. A good strategy should use a firm's resources and capabilities to stake out a position in the marketplace that sets it apart from competitors and enables it to

successfully compete in the external environment.

8.5 Strategic Objectives and Levels of Strategy

4. What are strategic objectives, levels of strategy, and a grand strategy? How are they related?

Strategic objectives are the big-picture goals for the company: what the company will do to try to fulfill its mission. These goals are broad and are developed based on top management's choice of a generic competitive strategy and a grand strategy for the firm. For example, competitive and grand strategies focused on cost-leadership and growth will require managers to develop objectives for growing the firm at low cost.

Business-level strategy is concerned with positioning a single company or business unit that focuses on a single product or product line. The primary business-level strategies are cost leadership and differentiation, as well as focus, which is combined with one of the other two strategies (focus-cost leadership, focus-differentiation).

Corporate-level strategy is concerned with the management and direction of multi-business corporations. These large firms make decisions about what businesses and industries to operate in so they can improve their overall performance and reduce the risk they would face if all their operations were concentrated in a single business or industry. Corporate CEOs use the BCG Matrix to evaluate their portfolio of businesses and use corporate actions such as acquisitions to make significant changes to their companies.

International strategy can be combined with either of the previous two strategies to incorporate international operations into a business or corporation. International strategy answers questions of what country or countries to operate in and how to be successful in foreign operations.

Grand strategies outline an approach to firm growth. The three grand strategies are growth, stability, and defense, and a firm chooses one of these approaches in addition to their choice of business-level, corporate, and/or international strategies. The choice of grand strategy is often dictated by conditions in the business environment, such as recessions or competitor activities.

8.6 Planning Firm Actions to Implement Strategies

5. How and why do managers plan? Why are goals important in the planning process?

Managers plan to decide what actions the firm will perform to achieve a specific goal. Planning includes decisions about when and how the goal should be accomplished and what resources will be required to perform the planned action. Planning is one of the basic functions of management, along with organizing, leading, and controlling.

Firms typically have several levels of planning happening simultaneously: one based on time and another based on detail. The time scale is expressed in terms of short-term (within the year) or long-term (over a yearlong) planning. Planning details become more specific as the manager moves downward in the hierarchy of planning levels. Strategic planning is the responsibility of firm leadership (CEO), while unit or division managers take the CEO's broad plans and focus them to be more suitable for their own units (tactical planning). Operational planning is the frontline manager's domain—he develops specific action plans for operational employees so that their work advances the entire firm toward the large-scale strategic goal.

Good goals are specific, measurable, achievable, relevant, and time-bound. These terms can be remembered by using the acronym SMART. Goals are critical to planning because they focus firm activities on specific objectives or outcomes.

8.7 Measuring and Evaluating Strategic Performance

6. How and why do managers evaluate the effectiveness of strategic plans?

Performance evaluation is to determine if plans have been successful and identify any changes that might be necessary. This is done both at the end and the beginning of strategic planning because when managers measure firm activities and progress towards objectives, the information they learn by doing that measurement becomes part of the analysis they use to develop improved plans and objectives to keep the firm on track to fulfill their mission and improve their overall performance.

? Chapter Review Questions

1. What does a mission statement explain about a firm that a vision statement does not?
2. Describe the three levels of strategy and what a manager developing strategy at each level is concerned with.
3. Give an example for why a firm would pursue each of the three grand strategies.

4. What actions can help a firm grow?
5. What managerial skills and actions are included in the planning process?
6. Why are good goals important to the planning process?
7. What are the strategic planning time frames? How do they work together?
8. Why is performance measurement often the start of new strategy development?

Management Skills Application Exercises

1. (Analytical Skills) You have recently completed a leadership development program, and your company has given you a retail store to manage. The employees at your store are diverse in terms of age, race, gender, and fluency in English. Your company has told you to set individual performance objectives for your employees to increase your store's profitability.

- What specific types of actions do you think you should include in a plan to increase profitability in a retail environment?
- Would you set the same performance objectives for different store roles, such as sales associates and cashiers?
- Should your employees be involved in creating their own performance objectives? Why or why not?
- Should your communication of performance goals be adapted for the diversity of the employees you supervise? How and why (or why not)?

2. (Ethical skills) You have probably experienced a situation in which you were not happy with the service you received as a customer of a business. Put yourself in the shoes of the manager of a business, and think about the following:

- How does a company's vision and mission impact your approach to trying to appease an unhappy customer?
- Imagine that the company follows a cost-leadership strategy and has a "no cash refunds" policy to reduce company costs. What kind of plan or rules would you develop for your employees to follow to deliver consistent customer service if a customer wants a refund?
- When might it be ethical to violate the rules you developed in (b) above to deliver the right response to a customer service problem?

3. (Personal skills) Use the strategy cycle (Exhibit 9.3) to outline a strategy for yourself. What is your personal vision and mission? Analyze your current situation, and develop three personal, professional, or educational goals or objectives that you would like to reach within the next five years. Brainstorm some strategies to achieve those goals. Even though you can't really implement them in the context of this exercise, think about performance measures you might use to track your progress toward your objectives.

Managerial Decision Exercises

1. Each of the following statements is a goal or objective, but it is not expressed very clearly. Rewrite each statement as a SMART goal and be ready to explain what you had to change to make it SMART.

- Amazon wants to improve product delivery times.
- Starbucks baristas should make customized drinks more quickly.
- Sales associates should sell more cars this month.
- McDonald's needs more customers at dinnertime.
- FedEx wants to compete with UPS.
- Boxed wants to reach more customers.
- Lyft wants to increase revenue.

2. Entrepreneurs must be strategic thinkers to develop the plans and objectives necessary to start a business that will last. Imagine you are starting a new music-streaming service. You have decided to differentiate your service from the others already in the marketplace. Think of three ways to add value to your service and also the performance measures you'll need to use to know if your added value is really valued by customers.

Critical Thinking Case

Interface Inc.'s Strategy for Sustainability

Watch Interface CEO Ray Anderson present his vision for Interface, Inc.:



Interface, Inc. is the world's largest manufacturer of carpet tile. Headquartered in Atlanta, Georgia, the global company manufactures the kind of carpet that millions of commercial buildings of all types have on their floors. Carpet manufacturing is a historically dirty business. Not only is commercial carpet a petroleum-based product, the manufacturing process is water-intensive, and carpet squares are installed using toxic glue. Because this carpet is aimed at the commercial market (think schools, libraries, malls, office buildings), it usually does not have a long lifespan. Malls and schools regularly remove and replace carpets after just a few years because of fading and wear from daily foot traffic. This puts millions of square feet of old carpet into landfills annually.

In 1994, Ray Anderson, the founder of Interface, was put on the spot when he was asked what his company was doing to be sustainable. He realized that the answer to the question was, unfortunately, "not much." Anderson realized that to improve the company's sustainability performance, Interface was going to have to radically reimagine every part of their business.

Unlike what many CEOs in his position might have done, Anderson decided to do just that. He gave Interface a new vision, which he called Mission Zero. The objective was to reduce Interface's environmental impact to zero by the year 2020. To accomplish this vision, the company looked at every aspect of its operations and developed what it called the "Seven Fronts of Sustainability":

Front #1—Eliminate Waste: Eliminate all forms of waste in every area of the business.

Front #2—Benign Emissions: Eliminate toxic substances from products, vehicles, and facilities.

Front #3—Renewable Energy: Operate facilities with 100% renewable energy.

Front #4—Closing the Loop: Redesign processes and products to close the technical loop using recycled and bio-based materials.

Front #5—Efficient Transportation: Transport people and products efficiently to eliminate waste and emissions.

Front #6—Sensitizing Stakeholders: Create a culture that uses sustainability principles to improve the lives and livelihoods of all of our stakeholders.

Front #7—Redesign Commerce: Create a new business model that demonstrates and supports the value of sustainability-based commerce.

To achieve the seven sustainability goals, Interface needed to redesign their operations from start to finish and even reconsider what constituted the start and finish for its products. Anderson empowered employees and invested in research to develop new ways to design, manufacture, and install carpet tiles. Interface also reimagined how its clients would use and dispose of carpet tiles.

Changing the strategy of a successful company is always risky, but Anderson felt he had to take the risk. Developing action plans for such a radical change meant that every step of the business had to be rethought, and Interface is on the way to achieving Ray

Anderson’s vision. “Since January 2014, Interface's plants in Holland and Northern Ireland have been using around 90% less carbon and 95% less water than in 1996, with no waste going to landfill. Its plant in Scherpenzeel, Netherlands, has hit two of its zero targets.”

How has Interface made these changes? In addition to changing the way they thought about their product’s life cycle, Interface has implemented performance measures to track its progress, and it incentivizes employees to be part of the company’s successful redesign. Connecting company actions to real cost savings was a key part of Ray Anderson’s vision. “Over time, programs that linked bonuses for employees at all company levels to reductions in waste started to put meat on the bones of Ray's ‘business case for sustainability.’” Interface’s costs have dropped as they have learned to use fewer resources to manufacture their products, and the cost savings have improved profitability even as Interface continues to invest in Mission Zero.

Critical Thinking Questions

1. What reaction do you think employees had when Ray Anderson announced he wanted to change the company’s mission?
2. How would you turn the Seven Fronts of Sustainability into SMART goals?
3. How is tying rewards to improved sustainability performance a form of strategic control?

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CHAPTER OVERVIEW

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9.1: Biblical Insight



Applying the Bible to Business

Jethro, Moses' father-in-law, provided advice to Moses, “The work is too heavy for you; you cannot handle it alone. 19 Listen now to me and I will give you some advice, select capable men from all the people—men who fear God, trustworthy men who hate dishonest gain—and appoint them as officials over thousands, hundreds, fifties, and tens. 22 Have them serve as judges for the people at all times but have them bring every difficult case to you; the simple cases they can decide themselves. That will make your load lighter.” Exodus 18: 19–22.

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9.2: Introduction

Learning Objectives

1. What are mechanistic versus organic organizational structures?
2. What are the fundamental dimensions of change?
3. How do managers deal with change?

Case Study: Steve Jobs

Steve Job's Views on Organizational Structure

Steve Jobs is best known for co-founding the technology company Apple Inc. Much of Jobs's success as the founder of Apple was Jobs's perspective on leadership and organizational structure. Jobs understood that micromanagement can be a significant hindrance to progress. Steve Jobs said, "It doesn't make sense to hire smart people and tell them what to do; we hire smart people so they can tell us what to do." He strongly believed in promoting a culture of trust and empowerment. Jobs understood that top-performing professionals took pride in creating exceptional products and services. They were also fervent about advancing their career and exploring new opportunities. In Apple, Jobs focused on redistributing decision-making power. He agreed with the famed management theorist Peter Drucker's view that "knowledge workers must manage themselves. They have to have autonomy."

It is also important that leaders establish solid relationships with other leaders. By fostering strong relationships, leaders can promote great collaboration, which is critical for creating effective teams. Jobs intensely advocated that leaders should value their workers. Jobs relied on collective insight, not using the traditional top-down decision-making process.

Ultimately, ensuring a strong team approach requires leaders to set aside their views and rely on the team's collective insights. It is critical to ensure employees' views are heard. This involves where leaders listen to their employees' opinions and sincerely engage employees in the direction of the company. Jobs believed listening to the ideas and insights of people at all levels of the organization is part of strategic management and should be embedded in the organizational structure. This approach requires time, patience, and a belief in others' power and capacity. Job shared that the practice of active listening is often a game changer.





Marcel Schwantes, (2023). Years ago, Steve Jobs said, There's 1 simple choice that separates leaders from bosses. *INC.* https://www.inc.com/marcel-schwantes...rom-bosses.htm

This chapter will cover several concepts that deal with how leaders develop and shape organizations. An understanding of the concepts in this chapter is essential for leaders who need to pull people together to accomplish the essential work of a business in a consistent process over time. We will address the essential ideas.

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9.3: Organizational Structures and Design

Learning Objectives

1. What are mechanistic versus organic organizational structures?

First, an **organizational structure** is a system for accomplishing and connecting the activities that occur within a work organization. People rely on structures to know what work they should do, how their work supports or relies on other employees, and how these work activities fulfill the purpose of the organization itself.

Second, **organizational design** is the process of setting up organizational structures to address the needs of an organization and account for the complexity involved in accomplishing business objectives.

Next, **organizational change** refers to the constant shifts that occur within an organizational system—for example, as people enter or leave the organization, market conditions shift, supply sources change, or adaptations are introduced in the processes for accomplishing work. Through **managed change**, leaders in an organization can intentionally shape how these shifts occur over time.

Finally, **organizational development (OD)** is the label for a field that specializes in change management. OD specialists draw on social science to guide change processes that simultaneously help a business achieve its objectives while generating well-being for employees and sustainable benefits for society. An understanding of OD practices is essential for leaders who want to maximize the potential of their organizations over a long period of time.

Together, an understanding of these concepts can help managers know how to create and direct organizations that are positioned to successfully accomplish strategic goals and objectives (Cummings & Worley, 2019)

To understand the role of organizational structure, consider the experience of Justin, a young manager who worked for a logistics and transportation company. His success at leading change in the United States gave his leaders the confidence that he could handle a challenging assignment: organize a new supply chain and distribution system for a company in Northern Europe. Almost overnight, Justin was responsible for hiring competent people, forming them into a coherent organization, training them, and establishing the needed infrastructure for sustained success in this new market.

If you were given this assignment, what would you do? How would you organize your employees? How would you help them understand the challenge of setting up a new organization and system? These are the kinds of questions that require an understanding of organizational structure, organizational design, organizational change, and organizational development.

One of the first issues Justin will need to address deals with how he will organize the system he will manage. The decisions about the structure of an organization are all related to the concept of organizational design. There are two fundamental forms of structure to remember when designing an organization.

To address these questions, we need to be familiar with two fundamental ways of building an organization.

The **formal organization** is an officially defined set of relationships, responsibilities, and connections that exist across an organization. The traditional organizational chart, as illustrated in Exhibit 9.2, is perhaps the most common way of depicting the formal organization. The typical organization has a hierarchical form with clearly defined roles and responsibilities.

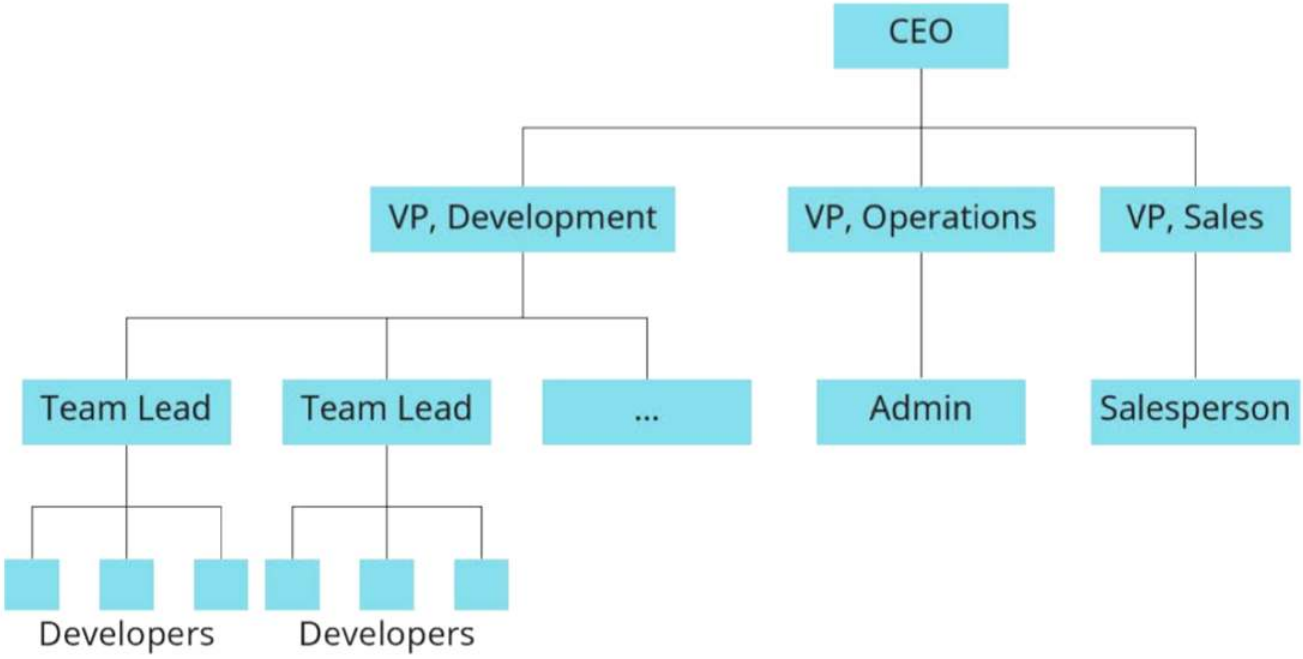


Exhibit 9.2 Formal Organizational Chart (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

When Justin sets up his formal organization, he will need to design the administrative responsibilities and communication structures that should function within an organizational system. The formal systems describe how flow of information and resources should occur within an organization. To establish the formal organization, he will identify the essential functions that need to be part of the system, and he will hire people to fill these functions. He will then need to help employees learn their functions and how these functions should relate to one another.

The **informal organization** is sometimes referred to as the invisible network of interpersonal relationships that shape how people connect with one another to carry out activities. The informal organization is emergent, meaning that it is formed through the common conversations and relationships that often naturally occur as people interact with one another in their day-to-day relationships. It is usually complex, impossible to control, and has the potential to significantly influence an organization's success.

As depicted in Exhibit 9.3, the informal organization can also be mapped, but it is usually very different than the formal organization. The chart you see in this example is called a network map, because it depicts the relationships that exist between different members of a system. Some members are more central than others, and the strength of relationships may vary between any two pairs or groups of individuals. These relationships are constantly in flux, as people interact with new individuals, current relationships evolve, and the organization itself changes over time (Katz & Kahn, 1978; Schein, 1980).

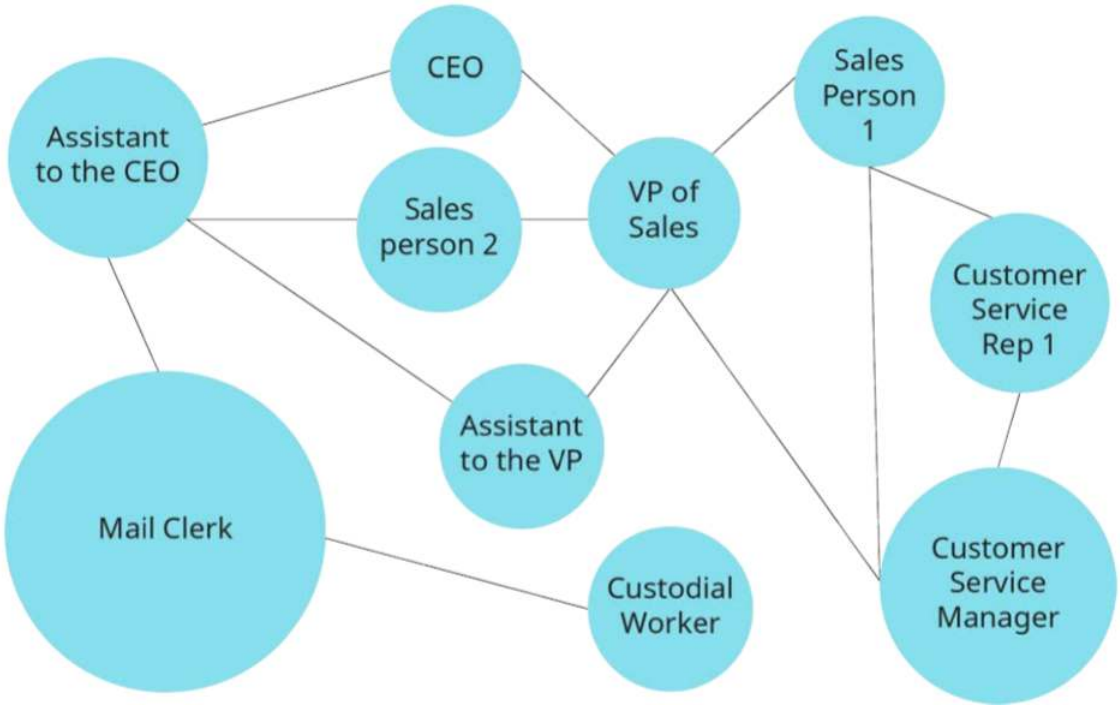


Exhibit 9.3 Informal Organizational Chart (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The informal organization in Justin's design will form as people begin interacting with one another to accomplish their work. As this occurs, people will begin connecting with one another as they make sense of their new roles and relationships. Usually, the informal organization closely mirrors the formal organization, but often it is different. People quickly learn who the key influencers are within the system, and they will begin to rely on these individuals to accomplish the work of the organization. The informal organization can either help or hinder an organization's overall success.

In sum, the formal organization explains how an organization *should* function, while the informal organization is how the organization *actually* functions. Formal organization will come as Justin hires and assigns people to different roles. He can influence the shape of the informal organization by giving people opportunities to build relationships as they work together. Both types of structures shape the patterns of influence, administration, and leadership that may occur through an organizational system.

As we continue our discussion of structure and design, we will next examine different ways of understanding formal structure.

Types of Formal Organizational Structures

Now, Justin will need to choose and implement an administrative system for delegating duties, establishing oversight, and reporting on performance. He will do this by designing a formal structure that defines the responsibilities and accountability that correspond to specific duties throughout an organizational system. In this section, we'll discuss the factors that any manager should consider when designing an organizational structure.



Exhibit 9.4 Smoke coming out of the Sistine Chapel chimney. Almost all organizations have established organizational hierarchies and customs. As a large, older organization, the Catholic Church has a tall global structure with the pope in the Vatican at the apex. A process of succession has the cardinals voting on a new pope, and white smoke billowing out of the Sistine Chapel signals that they have chosen the new pope. (Credit: Jeffrey Bruno/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Bureaucracy

One of the most common frameworks for thinking about these issues is called the **bureaucratic model**. It was developed by Max Weber, a 19th-century sociologist. Weber's central assumption was that organizations will find efficiencies when they divide the duties of labor, allow people to specialize, and create structure for coordinating their differentiated efforts, usually within a hierarchy of responsibility. He proposed five elements of bureaucracy that serve as a foundation for determining an appropriate structure: specialization, command-and-control, span of control, centralization, and formalization (Weber, 1958).

Specialization

The degree to which people are organized into subunits according to their expertise is referred to as **specialization**—for example, human resources, finance, marketing, or manufacturing. It may also include specialization within those functions. For instance, people who work in a manufacturing facility may be well-versed in every part of a manufacturing process, or they may be organized into specialty units that focus on different parts of the manufacturing process, such as procurement, material preparation, assembly, quality control, and the like.

Command-and-Control

The next element to consider is the reporting and oversight structure of the organization. **Command-and-control** refers to the way in which people report to one another or connect to coordinate their efforts in accomplishing the work of the organization.

Span of Control

Another question addresses the scope of the work that any one person in the organization will be accountable for, referred to as **span of control**. For instance, top-level leaders are usually responsible for all of the work of their subordinates, mid-level leaders are responsible for a narrower set of responsibilities, and ground-level employees usually perform very specific tasks. Each manager in a hierarchy works within the span of control of another manager at a level of the organization.

Centralization

The next element to consider is how to manage the flows of resources and information in an organization, or its **centralization**. A highly centralized organization concentrates resources in only one or very few locations, or only a few individuals are authorized to make decisions about the use of resources. In contrast, a diffuse organization distributes resources more broadly throughout an organizational system along with the authority to make decisions about how to use those resources.

Formalization

The last element of bureaucracy, **formalization**, refers to the degree of definition in the roles that exist throughout an organization. A highly formalized system (e.g., the military) has a very defined organization, a tightly structured system, in which all jobs,

responsibilities, and accountability structures are very clearly understood. In contrast, a loosely structured system (e.g., a small, volunteer nonprofit) relies heavily on the emergent relationships of informal organization.

Mechanistic and Organic Structures

Using the principles of bureaucracy outlined above, managers like Justin have experimented with many different structures as a way to shape the formal organization and potentially to capture some of the advantages of the informal organization. Generally, the application of these principles leads to some combination of the two kinds of structures that can be seen as anchors on a continuum (see Table 9.1).

Elements of Organizational Structure and Their Relationship to Mechanistic and Organic Forms

Mechanistic	<---------->	Organic
Highly formalized	**Standardization**	Low
High/Narrow	**Specialization**	Low/Broad
Centralized	**Centralization**	Decentralized
Functional	**Departmentalization**	Divisional

Table 9.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

At one end of the continuum is **mechanistic bureaucratic structure**. This is a strongly hierarchical form of organizing that is designed to generate a high degree of standardization and control. Mechanistic organizations are often characterized by a highly **vertical organizational structure**, or a "tall" structure, due to the presence of many levels of management. A mechanistic structure tends to dictate roles and procedure through strong routines and standard operating practices.

In contrast, an **organic bureaucratic structure** relies on the ability of people to self-organize and make decisions without much direction such that they can adapt quickly to changing circumstances. In an organic organization, it is common to see a **horizontal organizational structure**, in which many individuals across the whole system are empowered to make organizational decisions. An organization with a horizontal structure is also known as a **flat organization** because it often features only a few levels of organizational hierarchy.

The principles of bureaucracy outlined earlier can be applied in different ways, depending on the context of the organization and the managers' objectives, to create structures that have features of either mechanistic or organic structures.

For example, the degree of specialization required in an organization depends both on the complexity of the activities the organization needs to account for and on the scale of the organization. A more organic organization may encourage employees to be both specialists and generalists so that they are more aware of opportunities for innovation within a system. A mechanistic organization may emphasize a strong degree of specialization so that essential procedures or practices are carried out with consistency and predictable precision. Thus, an organization's overall objectives drive how specialization should be viewed. For example, an organization that produces innovation needs to be more organic, while an organization that seeks reliability needs to be more mechanistic.

Similarly, the need for a strong environment of command-and-control varies by the circumstances of each organization. An organization that has a strong command-and-control system usually requires a vertical, tall organizational administrative structure. Organizations that exist in loosely defined or ambiguous environments need to distribute decision-making authority to employees and thus will often feature a flat organizational structure.

The span of control assigned to any specific manager is commonly used to encourage either mechanistic or organic bureaucracy. Any manager's ability to attend to responsibilities has limits; indeed, the amount of work anyone can accomplish is finite. A manager in an organic structure usually has a broad span of control, forcing her to rely more on subordinates to make decisions. A manager in a mechanistic structure usually has a narrow span of control so that she can provide more oversight. Thus, increasing the span of control for a manager tends to flatten the hierarchy while narrowing the span of control tends to reinforce the hierarchy.

Centralization addresses assumptions about how an organization can best achieve efficiencies in its operations. In a mechanistic structure, it is assumed that efficiencies will occur in the system if the resources and decisions flow through in a centralized way. In

an organic system, it is assumed that greater efficiencies will be seen by distributing those resources and having the resources sorted by the users of the resources. Either perspective may work, depending on the circumstances.

Finally, managers also have discretion in how tightly they choose to define the formal roles and responsibilities of individuals within an organization. Managers who want to encourage organic bureaucracy will resist the idea of writing out and tightly defining roles and responsibilities. They will encourage and empower employees to self-organize and define for themselves the roles they wish to fill. In contrast, managers who wish to encourage more mechanistic bureaucracy will use tools such as standard operating procedures (SOPs) or written policies to set expectations and exercise clear controls around those expectations for employees.

When a bureaucratic structure works well, an organization achieves an appropriate balance across all considerations. Employees specialize in and become highly advanced in their ability to perform specific functions while also attending to broader organizational needs. They receive sufficient guidance from managers to stay aligned with overall organizational goals. The span of control given to any one manager encourages them to provide appropriate oversight while also relying on employees to do their part. The resources and decision-making necessary to accomplish the goals of the organization are efficiently managed. There is an appropriate balance between compliance with formal policy and innovative action.

Functional Structures

Aside from the considerations outlined above, organizations will often set structures according to the functional needs of the organization. A functional need refers to a feature of the organization or its environment that is necessary for organizational success. A functional structure is designed to address these organizational needs. There are two common examples of functional structures illustrated here.

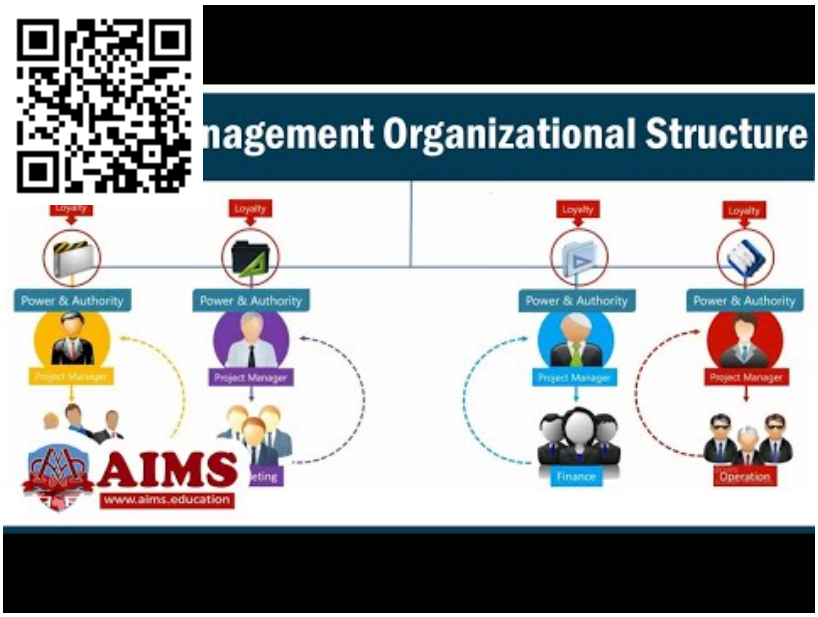
Product structures exist where the business organizes its employees according to product lines or lines of business. For example, employees in a car company might be organized according to the model of the vehicle that they help to support or produce. Employees in a consulting firm might be organized around a particular kind of practice that they work in or support. Where a functional structure exists, employees become highly attuned to their own line of business or their own product.

Geographic structures exist where organizations are set up to deliver a range of products within a geographic area or region. Here, the business is set up based on a territory or region. Managers of a particular unit oversee all the operations of the business for that geographical area.

In either functional structure, the manager will oversee all the activities that correspond to that function: marketing, manufacturing, delivery, client support systems, and so forth. In some ways, a functional structure is like a smaller version of the larger organization—a smaller version of the bureaucracy that exists within the larger organization.

One common weakness of a bureaucratic structure is that people can become so focused on their own part of the organization that they fail to understand or connect with broader organizational activities. In the extreme, bureaucracy separates and alienates workers from one another. These problems can occur when different parts of an organization fail to communicate effectively with one another.

Some organizations set up a **matrix structure** to minimize the potential for these problems. A matrix structure describes an organization that has multiple reporting lines of authority. For example, an employee who specializes in a particular product might have both a functional reporting line and a geographic reporting line. This employee has accountability in both directions. The functional responsibility has to do with her specialty as it correlates with the strategy of the company as a whole. However, her geographic accountability is to the manager who is responsible for the region or part of the organization in which she is currently working. The challenge is that an employee may be accountable to two or more managers, and this can create conflict if those managers are not aligned. The potential benefit, however, is that employees may be more inclined to pay attention to the needs of multiple parts of the business simultaneously.



Concept Check

1. What is an organizational structure?
2. What are different types of organizational structures?
3. What is organizational design?
4. What concepts should guide decisions about how to design structures?

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9.4: Organizational Change

Learning Objectives

1. What are the fundamental dimensions of change?

Our discussion about organizational structure to this point has focused on the forms that an organization might take and the options that are available to managers as they design structures for their organizations. However, organizations are constantly evolving. One common refrain is that "there is nothing so constant as change." Because of this, there is no one best way to organize in all circumstances. Effective managers need to be aware of the various factors that drive the need for change. There are advantages and disadvantages of each of the various forms of organizing we have discussed. Managers need to adapt the organization so that it is ideally situated to accomplish current organizational goals. Thus, effective managers need to know how to plan and implement change to achieve organizational success.

We will begin this section by reviewing the types of changes that may occur in an organization. Then we will explore the organizational life cycle model, which explains how the structural needs of an organization evolve over time (Brown & Eisenhardt, 1997).

Types of Change

There are many different types of changes in organizations. The first, consistent with what we have talked about so far in this chapter, is **structural change**. This has to do with the changes in the overall formal relationships within an organization. Examples of structural change include reorganizing departments or business units, adding employee positions, or revising job roles and assignments. These changes should be made to support broader objectives such as centralizing or decentralizing operations, empowering employees, or finding greater efficiencies.

Another common type of change is **technological change**. Implementation of new technologies is often forced upon an organization as the environment shifts. For example, an industry upgrade in a commonly used software platform may require that employees learn new ways of working. Upgraded machinery or hardware may require employees to learn new procedures or restructure the way that they interact with one another. The advent of web-based cloud technologies is an example from the last decade and an example of ways in which new forms of collaboration are becoming more available. Technological change often induces structural change because it requires different ways of connecting across an organizational system.

A third type of organizational change is culture change. Organizational culture refers to the common patterns of thinking and behaving within an organization. Culture is rooted in the underlying beliefs and assumptions that people hold of themselves and of the organization. These beliefs and assumptions create mindsets that shape the culture. Cultural change is among the most difficult kinds of changes to create within an organizational system. It often involves reshaping and re-imagining the core identity of the organization. A typical culture change process, if it is successful, requires many years to achieve (Kotter & Schlesinger, 1979).

The Organizational Life Cycle

Most organizations begin as very small systems that feature very loose structures. In a new venture, nearly every employee might contribute to many aspects of an organization’s work. As the business grows, the workload increases and more workers are needed. Naturally, as the organization hires more and more people, employees being to specialize. Over time, these areas of specialization mature through **differentiation**, the process of organizing employees into groups that focus on specific functions in the organization. Usually, differentiated tasks should be organized in a way that makes them complementary, where each employee contributes an essential activity that supports the work and outputs of others in the organization.

The patterns and structures that appear in an organization need to evolve over time as an organization grows or declines through four predictable phases (see Exhibit 9.5). In the **entrepreneurship** phase, the organization is usually very small and agile, focusing on new products and markets. The founders typically focus on a variety of responsibilities, and they often share frequent and informal communication with all employees in the new company. Employees enjoy a very informal relationship, and the work assignments are very flexible. Usually, there is a loose, organic organizational structure in this phase.

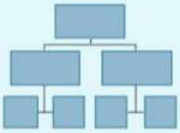
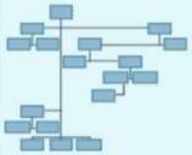
	Entrepreneurship	Survival and Early Success	Sustained Success	Renewal (or Decline)
Organization				
Extent of formal systems	Minimal to nonexistent	Minimal	Basic/Developing/ Maturing	Extensive
Key Ideas	• Marshalling of resources • Lots of ideas • Entrepreneurial activities • Little planning and coordination • Formaion of a ''niche'' • "Prime mover" has power	• Informal communication and structure • Sense of collectivity • Long hours spent • Sense of mission • Innovation continues • High commitment	• Formalization of rules • Stable structure • Emphasis on efficiency and maintenance • Conservatism • Institutionalized procedures	• Elaboration (or reduction) of structure • Decentralization (or centralization) • Domain expansion (or reduction) • Adaptation (or stagnation) • Renewal (or decline

Exhibit 9.5 Organizational Life Cycle (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The second phase, *survival and early success*, occurs as an organization begins to scale up and find continuing success. The organization develops more formal structures around more specialized job assignments. Incentives and work standards are adopted. The communication shifts to a more formal tone with the introduction of hierarchy with upper- and lower-level managers. It becomes impossible for every employee to have personal relationships with every other employee in the organization. At this stage, it becomes appropriate to introduce mechanistic structures that support the standardization and formalization required to create effective coordination across the organization.

In the third phase, *sustained success* or *maturity*, the organization expands, and the hierarchy deepens, now with multiple levels of employees. Lower-level managers are given greater responsibility, and managers for significant areas of responsibility may be identified. Top executives begin to rely almost exclusively on lower-level leaders to handle administrative issues so that they can focus on strategic decisions that affect the overall organization. At this stage, the mechanistic structures of the organization are strengthened, and functional structures may be introduced. Often, tension emerges over how to find balance in the structure. Most organizations at this stage of development need to have elements of a mechanistic bureaucracy while maintaining an environment that allows for the innovation and flexibility that is a feature of an organic structure.

A transition to the fourth phase, *renewal* or *decline*, occurs when an organization expands to the point that its operations are far-flung and need to operate somewhat autonomously. Functional structures become almost essential, and subunits may begin to operate as independent businesses. Often, the tensions in the company between mechanistic and organic inclinations may be out of balance. To address these issues, the organization has to be reorganized or restructured to achieve higher levels of coordination between and among different groups or subunits. Managers may need to address fundamental questions about the overall direction and administration of the organization.

To summarize, the key insight about the organizational life cycle is that the needs of an organization will evolve over time. Different structures are needed at different stages as an organization develops. The needs of employees will also change. An understanding of the organizational life cycle provides a framework for thinking about changes that may be needed over time.

Dimensions of Change

When considering how to assess the need for change in an organization, it can be helpful to think of three dimensions: the scope of change, the level of change, and the intentionality of change.

The first, the **scope of change** refers to the degree to which the required change will disrupt current patterns and routines. **Incremental change** refers to small refinements in current organizational practices or routines that do not challenge but rather build on or improve existing aspects and practices within the organization. Common incremental change practices are LEAN and Six Sigma, which are used to find relatively small changes that can generate greater efficiencies in a process. An organization can improve its product-line efficiencies by identifying small discrepancies in process and then fixing them in a systematic way. Incremental change does not typically challenge people to be at the edge of their comfort zone (Setter & Six Sigma, 2018).

In contrast, **transformational change** refers to significant shifts in an organizational system that may cause significant disruption to some underlying aspect of the organization, its processes, or structures. Transformational change can be invigorating for some employees but highly disruptive and stressful for others. Examples of transformational change include large systems changes and organizational restructuring. Culture change often requires transformational change to be successful (Kotter & Schlesinger, 1979).

Finally, a **strategic change** is a change, either incremental or transformational, that helps align an organization's operations with its strategic mission and objectives. This kind of change is necessary for an organization to achieve the focus it needs to make needed transfer missions and the work it does to stay competitive in the current or larger organization, larger market environment, or societal environment.



Exhibit 9.6 Uber Eats on bicycle An example of a small organizational structure is exemplified by jobs in the sharing economy like Uber and Lyft drivers. Here an Uber Eats food delivery driver cycles along a very busy Oxford Road in Manchester, England. (Credit: Shopblocks/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

The **level of change** refers to the breadth of the systems that need to be changed within an organization. **Individual-level change** focuses on how to help employees improve some active aspect of their performance or the knowledge they need to continue to contribute to the organization in an effective manner. Individual-level change programs include leadership development, training, and performance management. **Group-level change** centers on the relationships between people and usually focuses on helping people to work more effectively together. Team development, or team building, is one of the most common forms of a team change process. **Organization-level change** is a change that affects an entire organizational system or several of its units. Strategic planning and implementation is perhaps the most common type of organization-level change. Higher-level change programs usually require changes at lower levels—an organization-level change may require change at both team and individual levels as well.

Intentionality is the final dimension of change and refers to the degree to which the change is intentionally designed or purposefully implemented. **Planned change** is an intentional activity or set of intentional activities that are designed to create movement toward a specific goal or end. Planned change processes often involve large groups of people and step-by-step or phase-by-phase activities that unfold over a period of time. Usually, effective leaders identify clear objectives for the change, the specific activities that will achieve those objectives, and the indicators of success.

In contrast, **unplanned change** is unintentional and is usually the result of informal organizing. It may or may not serve the aims of the organization as a whole. Unplanned change may be completely spontaneous, occurring simply because employees in some part of an organization want to initiate change. But sometimes, it occurs as a byproduct of a planned change process. This is because it is difficult for leaders to anticipate all the consequences of a planned change effort. Employees react in unpredictable ways, technologies don't work as expected, changes in the marketplace don't happen as expected, or other actors may react in unanticipated ways.

As we will discuss below, some change models are designed to take advantage of the potential for spontaneous organizing among employees. Unplanned change can be harnessed as a positive force when employees are invited to be proactive about working toward common organizational goals.

? Concept Check

1. What is organizational change?
2. What are the fundamental dimensions of change?

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9.5: Managing Change

Learning Objectives

1. How do managers deal with change?

To this point in the chapter, we have focused on factors that influence the need for change. We have also discussed how to think about the dimensions of change that may be needed. In this section, we will describe different approaches to designing and implementing change.

Change management is the process of designing and implementing change. Most leaders are responsible for some degree of change management. In addition, as indicated in the introduction, **organizational development (OD)** is a specialized field that focuses on how to design and manage change (Cummings & Worley, 2019).

An **OD consultant** is someone who has expertise in change management processes. An internal consultant is someone who works as an employee of an organization and focuses on how to create change from within that organization. An external consultant is an OD specialist hired to provide outside expertise for a short period of time, usually for a major change effort. Leaders are more effective in managing change if they understand the common practices for managing change as well as the perspectives and practices used by OD specialists.

Basic Assumptions about Change

There are numerous models of change available to managers, and it can be difficult to discern the differences between them when creating a planned change process. Many approaches and methodologies for developing organizations and managing change have been developed and practiced during the last century. Indeed, it can be daunting and confusing to sort through and understand which models are most appropriate and relevant for a particular situation. Every model of change has strengths and limitations, and it is important to understand what these may be. The type of change methodology used in a particular situation should be matched to the needs of that situation.

It may be helpful to use several questions when deciding on the appropriate approach to use in a planned change process.

A first question has to do with the starting place for the change: *Is the organization in a state of deficiency that needs significant fixing, or is it in a state of high performance where there exists a need for refining and tweaking?*

One common motivation for change is the perception that an organization may be in some state of dysfunction with significant and serious problems, somewhat like a patient in a hospital in need of serious medical attention. A dysfunctional organization may require transformational change, in which the fundamental assumptions, beliefs, and organizing ideas of the organization are thoroughly challenged and altered. This set of perceptions often leads to **deficit-based change**, in which leaders assume that employees will change if they know they will otherwise face negative consequences.

In contrast, leaders may perceive that an organization is highly functional, much like an Olympic athlete or highly accomplished team. A high-performing organization may require incremental change as the organization continues to build on solid fundamentals to refine and add to its capacity for high performance. This set of perceptions often leads to **abundance-based change**, in which leaders assume that employees will change if they can be inspired to aim for greater degrees of excellence in their work.

A second important question addresses the mechanisms of change: *What are our assumptions about how to create change?* This question is crucial because the answers determine the preferred designs for planned change and the perceptions of the effectiveness of the change.

Top-down change approaches rely on mechanistic assumptions about the nature of an organization. In this approach, a relatively small group of individuals in the organization will design a process and instruct others throughout the organization as to how the process of change should unfold. Most employees in the top-down approach play a passive role during the design process and are generally expected to follow the directions given to them by leaders in the organization. In other words, this approach to change relies on the formal organization to drive the legitimacy of the change.

The opposite of the top-down change approach is the **emergent** or **bottom-up approach**. This approach relies on the belief that employees will be more invested in change if they play some role in the process of designing the change. **Participatory**

management, the inclusion of employees in the deliberations about key business decisions, is a common practice that aligns with the emergent approach to change.

The differences between top-down and bottom-up approaches can be dramatic. For example, following the top-down approach, leaders might determine that the organizational structure needs to be reconfigured to better accommodate a significant shift in its business. They might assume that they can implement the new structure and that employee routines and patterns of behavior will then change in a natural progression.

The bottom-up approach may reverse this logic. Employees might first work together to explore the tasks that are essential to a specific business problem, they might experiment with potential changes, and *then* managers might rearrange structures to match the new, emergent way of doing work. In contrast to the top-down approach, in a bottom-up process, a shift in structure may be a last step.

A challenge for many managers in the bottom-up approach is a perception that they cannot directly control planned changes. Rather, they must rely on processes that draw employees together and expect that employees will respond. This requires a leap of faith, trusting that the process of involving people will lead to desirable emergent changes.

In practice, top-down and bottom-up practices often work together. For example, leaders might exercise top-down authority to define and declare what change is necessary. Then, they might design processes that engage and empower employees throughout an organization to design how the change will be brought about. Working toward a generally defined goal, employees at all levels are highly engaged in the change process from beginning to end. This approach has the effect of encouraging self-organizing through the informal organization as employees make and implement decisions with minimal direction.

As a general rule of thumb, the more complex the potential change, the greater the need to involve employees in the process of planning and implementing change.

A final question addresses the mindset for change: What are our fundamental beliefs about people and change?

Again, a simplistic dichotomy is helpful for defining the approach that may be employed to create change. In the **conventional mindset**, leaders assume that most people are inclined to resist change, and therefore, they must be managed in a way that encourages them to accept change. In this view, people in an organization may be seen as objects, sometimes even as obstacles, that must be managed or controlled. When leaders use conventional methods, they demonstrate a tendency to assume that their perspectives are more informed, sound, and logical than the perspectives of employees. They will work hard to convince employees about the correctness of their decisions, relying on logic to prove the point. They may be inclined to use methods that may be seen by employees as manipulative or coercive. Some authors claim that the conventional mindset is the default or dominant mode of change in most organizations (Quinn, 2015).

In contrast, in the **positive or appreciative mindset**, leaders assume that people are inclined to embrace change when they are respected as individuals with intrinsic worth, agency, and capability. In this view, employees in an organization may be seen as partners, sometimes even as champions of change, who can do significant things. When leaders use appreciative methods, they involve employees through meaningful dialogue and seek to lead with a sense of purpose. They may start the change process by highlighting the values that people may hold in common to establish an environment in which employees develop a strong sense of connection with one another. With a strong social infrastructure, they involve employees through participatory processes that allow them to develop common goals and processes for achieving significant changes.



Exhibit 9.7 IBM building in China IBM is a U.S.-based company with several divisions organized geographically. Pictured here is the “Dragon Building,” their China-based headquarters. (Credit: bfishshadow/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

The three questions we have raised here can lead to many variations in the way that leaders design and implement change. For example, it is possible for a change process to be deficit-based, top-down, and conventional, while another change process may be abundance-based, bottom-up, and positive. Other change processes may be mixed in their design and delivery—for example, starting with a deficit-based perspective yet choosing to use an abundance-based design to create transformational change through a bottom-up, participatory, appreciative process. In today’s business environment, it is rare to find an approach that purely fits any of these categories.

We will next turn to a discussion of common change models that may be analyzed through the three questions just raised.

✔ Sustainability and Responsible Management

Why Is the National Hockey League Interested in Climate Change, and Why Did They Hire Kim Davis?

Because of demographics, with most of their employees coming from northern U.S. states, Canada, and northern European countries, there was probably no organization more racially uniform than the National Hockey League. In these days of increased attention to social issues and changing demographics, the NHL needed a drastic shift in its approach to inclusivity and the social issues it addresses. Two of the best people to usher in change, they decided, were an accomplished executive untouched by old-guard hockey culture and a former player.

Kim Davis knew that she was different from many executives, managers, coaches, and players in the National Hockey League. She welcomed the challenge, and it was a major attraction that led her to accept the position. She looks like no one else holding the position of executive vice president at the NHL, which has primarily been run by (a) men and (b) white men in its history of more than 100 years. The league signaled a long-overdue shift in thinking when it named Davis, a black woman, as executive vice president of social impact, growth initiatives, and legislative affairs.

In a time when the NHL is trying to adapt and become more welcoming to those who feel they don’t belong or haven’t been allowed to belong in the sport, the perfect person to initiate change was someone from the outside, someone free of a hockey culture that has become stale by current social standards.

Especially compared with the other major North American pro sports, hockey sometimes unfairly gets accused of being tone-deaf or at least resistant to change. The league is working hard to improve its commitment to inclusivity with initiatives such as the Declaration of Principles and Hockey Is For Everyone, but change doesn’t come easy for players, coaches, administrators, and fans of the sport. Davis represents the NHL’s attempt to shepherd the game through social change—internally and externally. That’s been her area of expertise throughout her professional life. At JPMorgan Chase, she endured nine different mergers, and her job was to help her employees prepare for change.

“Most people aren’t comfortable with change, and often when they say that, what they really mean is that they are comfortable with change, but they aren’t comfortable with change happening to *them*,” she said. “It’s all about what happens to us, so how, as a leader, do you help people get through that?

“We may not be able to control that fan and that microcosm of society that is over-indexed in our sport,” she said. “Over time it will change as we introduce new fans, and guess what? Even that classic model of our fans, that white male, generationally, their kids, they’re not buying into that even if their parents are.”

"Find another hockey executive who will touch a topic like that without tap dancing.” And that’s why Kim Davis is here. She’s the outsider turned insider, the voice of those formerly neglected. And she’s just getting started.

Regarding climate change, why did the NHL attend the historic climate change conference in Paris? As NHL President Gary Bettman states: “Our game, which is probably unique to most other professional sports, is so tied to the environment. We need cold weather; we need fresh water to play. Therefore, our game is directly impacted by climate change and freshwater scarcity. So, we developed NHL Green, a mandate to promote this type of awareness across all our organizations. Over the course of the last five years, we've done everything from a food recovery initiative, which was taking all the unused food that we prepare in our arenas and donating it to local food banks ... to a water restoration program. All of that culminated in the release of a sustainability report in 2014, which was the first of its kind from any U.S. pro sports league. It's important to us.”

The NHL players are also interested. One individual is recently retired player Andrew Ference, who introduced green initiatives such as the NHL Players Association Carbon Neutral Challenge. While he was a player with the Stanley Cup champion Boston Bruins, he knew that he wanted a career after retirement from the NHL and decided to attend the Harvard Business School, where he earned a certificate in Corporate Sustainability and Innovation. Because he really prioritized sustainability in his life, it was a natural progression to a second career after his retirement. Ference says, “I’ve had a lifelong passion for the environment and sustainability issues. But before leaving the NHL, I wanted to back that up with some formal education. When I signed up for that first class, I knew in my gut it was a big moment.”

Commissioner Gary Bettman says that the next stage regarding sustainability is to “…engage more players around this issue because when we put out stuff on our social media platforms, 12 million followers on social media, that definitely gets messaging out to fans. But when you get an Andrew Ference, that's when you get a lot more engagement. We need to educate our athletes on this issue because they grew up on frozen ponds, they get the connection between learning to play outside and environmental issues. They get it.”



1. What types of changes that Kim Davis is addressing for the National Hockey League, such as demographics, “hockey culture,” and climate change, relate to the concepts in this chapter?
2. How are the roles of Kim Davis, Gary Bettman, and the players regarding change defined in the concepts of this chapter?

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Common Change Models

In this section, we will share four common approaches to OD and organizational change. Lewin’s model and Kotter’s model are common planned change processes that usually rely on the mechanisms of formal organization (Lewin, 2012). The other two models, Cooperrider’s appreciative inquiry model and the Olson and Eoyang complex adaptive systems model, are designed to promote informal organizing and emergent change (Cooperrider, 2008; Olson & Eoyang, 2001).

Lewin's Change Model

Psychologist Kurt Lewin proposed one of the first models of change. **Lewin’s change model** shows organizational change occurring in three phases (see Exhibit 9.8).

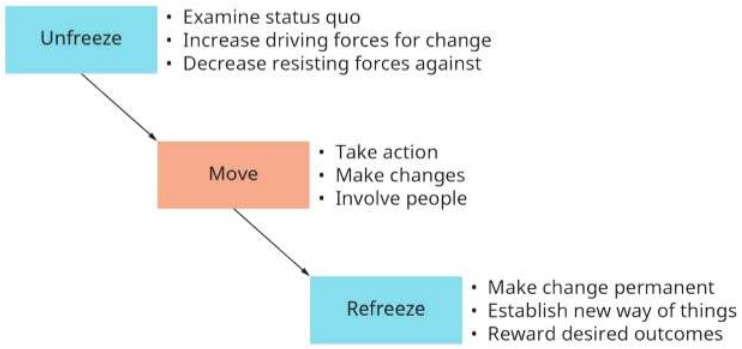


Exhibit 9.8 Summary of Kurt Lewin’s Change Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

First, an organization must be "unfrozen" in that existing norms, routines, and practices must be disrupted. This can be done in several ways. For example, structural changes that cause a disruption in the system can be introduced to the organization. Similarly, the introduction of a new technology or policy can cause an organization to "unfreeze." Whatever the cause, unfreezing sets the stage for change.

Next, changes are introduced in the organization to shift the system to a new state or reality. Typically, people react to moments of disorder by creating a new form of order. As changes are introduced, managers might provide a number of interventions that help people adjust to the new norms of reality they are facing. For example, they might require employees to go through a training program, or they might hold discussion sessions or town-hall meetings with people talk about the changes and troubleshoot. The intent of this phase is to help people adjust to the expected change.

The final phase is to "refreeze" the organization. That is, leaders of the organization reinforce the new norms or practices that should accompany the change. They might adjust the resources, policies, and routines to fit the new expected norms.

Lewin’s Model explains a very basic process that accompanies most organizational changes. That is, many people prefer a stable, predictable organization, and they become accustomed to the routines that exist in their organizational environment. For this reason, common routines and behaviors must be disrupted. When past routines and behaviors are no longer available, people naturally adjust. As they react to a new reality, they establish new routines and patterns of behavior.

However, Lewin's Model is most understandable when we assume that an organization is generally stable unless otherwise acted upon. That is, this model seems to fit in organizations in which any change is likely to last for a long period of time. Such a stable organizational context is increasingly rare in contemporary society.

Still, Lewin's Model really describes a basic pattern of change that plays out in all organizational systems: stability gives way to instability, something shifts in the system, and stability emerges once again. An understanding of this pattern can be viewed through either deficit-based or abundance-based lenses, and it applies in either top-down or bottom-up approaches.

For a visual and audio review of Lewin's Change Management Model, view the embedded video below.



Kotter's Change Model

Kotter's change model is one of the most widely used in organizations today. Generally, it aligns with mechanistic view of structure and thus may be especially useful in organizations where there is a strong, hierarchical structure. This is an eight-step model, shown in Exhibit 9.9, that relies on a centralized, top-down process for creating planned change.



Exhibit 9.9 Summary of John Kotter's Change Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

In the first step, managers *establish a sense of urgency*. They do this by creating a narrative about why the change is necessary. Top managers often use diagnostic tools to gather data that supports the case for change. They strive to convince key organizational leaders and employees that the change is absolutely necessary. A common metaphor is to "create a burning platform" or to make it clear that the organization cannot survive if it continues doing what it has done.

In the second step, *form a powerful guiding coalition*, managers assemble a group of influential people to help shape the planned change. Ideally, the guiding coalition should represent the areas of an organization that will be affected by the change. The guiding coalition should become ambassadors for the change as it unfolds.

In the third phase, *create a vision of change*, the manager and guiding coalition together create a vision of the expected change. They outline the scope of the change, the reason for the change, and what will be better or different as a result of the change.

The fourth step is to *communicate the vision*—reach out to all members of the organization and communicate the vision for change. Ideally, they connect with all the key areas of the organization that will be affected. They clearly explain why the change is needed and how the change should unfold. If needed, they answer questions and clarify problems.

The fifth step is to *remove any obstacles*. This step is intended to reduce the resistance to change and/or to provide the necessary resources to make the change successful. The success of this step helps to smooth the way for successful implementation.

The sixth step is to *create small wins*. A very powerful way to encourage people to support changes to help them see the path to success. Short wins signal to the organization that a change is possible and that tangible benefits will come once the change is fully implemented.

The seventh step is to *consolidate improvements*. Small changes build up over time and become big changes. As the organization successfully moves toward implementation, it is important to consolidate and solidify successes. Managers should reinforce and celebrate small wins and milestones. The unfolding success of the change helps to convince all members of the organization that the change is real and will produce its intended benefits.

The last step is to *anchor the changes*. In this step, the new norms and practices that accompany the change are standardized and refined. The mode of change moves from transformational to incremental. Refinements are implemented to fine-tune the change and to capture all the intended benefits.

Kotter's model is especially useful in situations where the desired change is reasonably predictable and where leaders are empowered to drive the change down through an organization. One challenge is that many employees may resist change if they have had no hand in shaping the plans. This is especially true if they do not fully comprehend the urgency of the change or the vision for the change. In this regard, it tends to be used when leaders hold a deficit-based view and are generally inclined to take a top-down approach from a conventional perspective. Still, where leaders must clearly define and implement a large-scale change, Kotter's model may work very effectively.

A comparison and contrast of Lewin's and Kotter's models is illustrated in Exhibit 9.10.

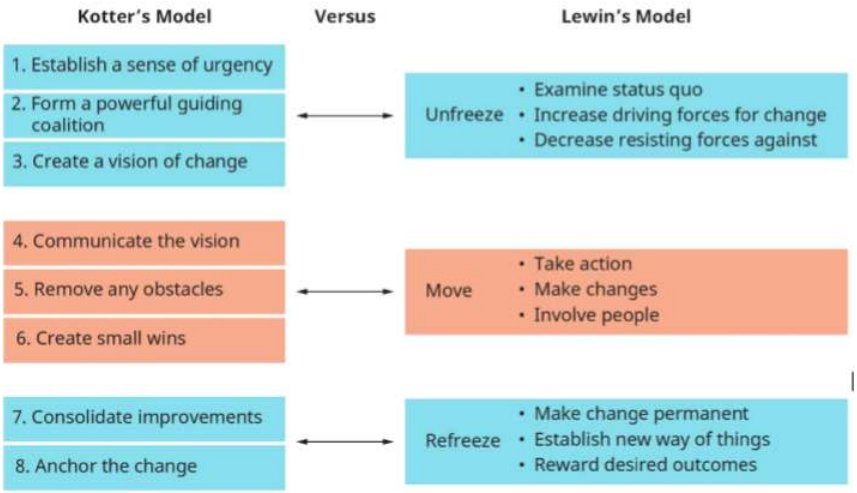


Exhibit 9.10 Kotter's Model versus Lewin's Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

For a visual and audio review of Kotter's Model, view the embedded video below.



Appreciative Inquiry

The a**ppreciative inquiry (AI) model** (not to be confused with Artificial Intelligence) is a model specifically designed as an abundance-based, bottom-up, positive approach. An Appreciative Inquiry, broadly defined, can be any question-focused, participatory approach to change that creates an appreciative effect on people and organizations (Bright, 2009). That is, the process of asking and discussing questions (inquiry) causes people to appreciate the people around them, the strengths of their organization, and the opportunities before them. Simultaneously, the process of having conversations expands the social capital of the organization, or the ability of people to work effectively together.

Developed in the 1980s by David Cooperrider at Case Western Reserve University, AI relies on the assumption that people continuously create their organizations through an emergent process that occurs in the common conversations of organizational life. These conversations are shaped by "narratives" about the reality of the organization in which people find themselves. For example, a dominant narrative might be that an organization's leaders are corrupt and intent on exploiting employees, or in contrast, that an organization's leaders are compassionate, forward-thinking, and innovative. Whatever the narrative, employees tend to justify actions that align with their views. Over time, a narrative can become a self-reinforcing reality. Based on this understanding of organizations as a socially constructed system, the key to creating change is to change the dominant narratives of an organization.

In AI, group dialogue is the primary mechanism for helping people create new narratives (Whitney & Trosten-Bloom, 2010). Specifically, **appreciative conversations** are intense, positively framed discussions that help people develop common ground as they work together to co-create a positive vision of an ideal future for their organization. When leaders use appreciative inquiry, they intentionally invite dialogue that generates a narrative for a positive organizational reality. This shift in narrative will inspire a shift in the actions that employees initiate in their daily work. While this approach may sound somewhat ambitious and abstract, in reality, it is simply an opportunity for employees to envision the future changes they would like to see and then work together to design how they will make these changes a reality.

OD consultants have developed many different variations of AI practices that address different organizational contexts. However, most of them rely on some version of a 5-D cycle: define, discover, dream, design, destiny.

The first phase, *define*, in which the objective for change and inquiry is established. In this phase, the leaders will create a guiding group, often called a steering committee. This group should include a cross-section of perspectives that represent the different parts of the organization where change is desired. Together, they will decide on a compelling way of describing an objective that invites people to think about ideal possibilities for the organization. In this process, they might turn a problem upside down to inspire a new narrative. For example, British Airlines turned a baggage-claim problem into an exploration of excellent customer service, and Avon turned a problem with sexual harassment into an opportunity to explore what it would take to create exceptional employee

engagement. By adjusting the perspective for the inquiry, each company was able to design an OD process that not only solved the original problem but also established a clear vision of what they most wanted as the positive alternative.

The second phase, *discover,* focuses on questions that explore ideal, existing examples of the desired future. The question "Who are we when we are at our best?" is commonly used to encourage this exploration through dialogue among employees. For example, British Airways asked its employees to describe examples of exceptional customer service anywhere in its organization. By sharing stories of exceptional customer service, they found examples of exemplary service, even though the dominant narrative was that they had challenges in this area. Finding existing examples of the desired future—no matter how small—causes people to see that a positive alternative is possible. Such examples also provide the data for documenting the strengths of an organization and the factors that make success possible.

The third phase, *dream,* is an exploration of ideal future possibilities for the organization. The strengths and factors revealed in the discovery phase provide a foundation for this discussion. Employees are invited to think creatively about what the organization might do if it were to build on its strengths. "What could be?" is a commonly used question to encourage this exploration. Many organizations have used creative techniques to encourage employees to innovate about the future. They might have employees work in groups to design prototypes of a process or write a mock newspaper article about a future successful project. The idea of the dream phase is to encourage employees to think as expansively as possible about the possibilities for change, usually in a fun and inviting way.

The fourth phase, *design*, starts with a process of prioritizing the ideas that have been developed in the dream phase. Employees might work together to brainstorm a list of all the possible areas for action that might help them accomplish the objective. Then they use a collective process to identify the ideas that have the most promise. Usually, senior leaders will add their voices to endorse the ideas that they want to encourage as actual action initiatives. Employees might be invited to join project teams that will carry out specific actions to develop and implement key actions.

The final phase, *destiny*, occurs as employees implement the plans they have developed. Project groups will continue to work on the agreed-upon action steps for a period of time. Typically, they will meet with other employee-based groups to check in, report on progress, and adjust their plans. Some organizations will also create celebratory events to commemorate key successes.

The appreciative inquiry cycle can become an intrinsic part of an organization's culture. Some companies will go through the AI process on an annual basis as an integral part of strategic planning. Other organizations use it only as needed when major transformational changes are desired. Though the examples in this section illustrate appreciative inquiry as used to change organizations as a whole, the model can also be applied at any level of organization—for example, in work with individuals and teams.

Complex Adaptive Systems

The final model we will review builds on the assumption that all organizations are **complex adaptive systems (CAS)** (Burnes, 2005). That is, an organization is constantly developing and adapting to its environment, much like a living organism. A CAS approach emphasizes the bottom-up, emergent approach to the design of change, relying on the ability of people to self-manage and adapt to their local circumstances. Before reviewing the CAS model in more depth, perhaps it would be helpful to examine a change process that is grounded in the CAS model.

One common CAS-based approach is Open Space Technology, a technique in which dozens of people may be involved (Owen, 2008). To set the stage, let's suppose that we want to create a series of innovations to improve the culture of innovation in an organization. The first task would be to invite as many interested stakeholders as possible to participate in a discussion on various topics related to the culture of innovation, perhaps over a two-day period. At the beginning of the first session, a leader in the organization might greet the participants and invite them to be part of an open-ended exploration of ideas and solutions. A facilitator would then distribute a single sheet of paper and a marker to each participant. She would ask each person to propose a topic or question for discussion, explaining that the purpose of this exercise is to attract other people to join a discussion.

Then she will go around the room, giving each person in turn up to 30 seconds to propose a topic or question and describe the significance and urgency of the idea. The go-around continues until a variety of topics are identified. Next, the facilitator works with participants to define a list of topics for discussion. The facilitator then designates times and locations for discussions on those topics. Finally, participants "vote with their feet" to choose groups that they want to join for discussion. Typically, each discussion

in an Open Space meeting will include an exploration of key questions, actions related to those questions, and proposals for resolving key questions.

As shown by this example, this approach is similar to AI in that it focuses on creating the conditions for people to self-organize in ways that align with the overall objectives of an organizational system. However, one big difference is that it relies less on step-by-step processes for creating change and more on principles that can be applied in many variations to shape the conditions for change in an organization.

The CAS approach provides a useful perspective on how organic organizational structures emerge and develop through the informal organization. An understanding of CAS, therefore, provides leaders with the key knowledge they need to influence the direction of the informal organization, even if they cannot directly control it.

To use the CAS approach, it is essential to understand a few key features of self-organizing among employees (Olson & Eoyang, 2001). To begin, the direction of any organization is emergent and requires involvement from many people. Yet, when people react to change, their exact behaviors may be unknowable, unpredictable, and uncontrollable. Most often, people react to change based on the perceptions of the people in their immediate circle of relationships within the organization. Every person in an organization is both influencing others and being influenced by others. This means that a key locus of change must involve the relationships that people have with one another. From the perspective of CAS, a change in the nature or patterns of interpersonal relationships in an organization will lead to changes in the outcomes of that organization. Leaders, in this regard, should think of themselves as facilitators of relationships and as supporters of employees who are constantly engaged in self-organizing to create needed changes.

So, how can a leader (as a facilitator) influence the way in which self-organizing occurs? For starters, a leader needs to pay attention to the key conditions that allow for informal self-organizing to occur. There are three basic questions to consider.

First, to what degree do people feel empowered to act as **change agents** in the system? Self-organizing originates in the people who comprise the organization. If they view themselves as agents who have discretion to act, they are more likely to take the initiative, engaging in non-directed activities that may benefit the organization. Do people feel empowered as agents of the organization? If not, interventions may be designed to help people understand their own capacities and competencies.

Second, *how connected are people to one another* in the organization? Relationships are the building blocks of all informal organizational activities. The more connected people feel to one another, the more likely they are to work with others in self-directed activity. Do people feel like they have high-quality relationships with coworkers? Are people regularly connecting with other individuals that they do not know very well? If the answers to these questions are negative, then interventions can be designed to strengthen the quality and configurations of connections within and across an organization.

Third, to what extent are *flows* of information and energy passing through the connections that exist between people? Both informal and formal feedback loops provide a mechanism whereby people receive information about what is working and or not in their activities. Do people quickly receive information about breakdowns or successes in the system? Is the emotional energy in the system generating a positive dynamic that encourages people to be engaged? Again, if the answers to these questions are negative, then processes or initiatives should be designed that will help people to communicate more effectively across their relationships.

Aside from examining these basic conditions for self-organizing, the CAS approach assumes that every organizational outcome is the product of an indeterminable number of variables. No one cause produces a single outcome. For instance, the accurate delivery of a product to a customer is caused by a whole system of interrelated factors, each influencing the other. Therefore, where broad changes in outcomes are desired, the whole system of interrelated factors needs to be engaged at once. The preferred method of doing this is to engage broad groups of stakeholders simultaneously, using dialogue and conversation to help people develop their sense of agency, their connections with others, and the processes that must be adjusted to create desired changes in outcomes. Appreciative inquiry is one method that works especially well to accomplish all these impacts.

In addition, leaders may also influence the structures that shape patterns of self-organizing. From a CAS perspective, a structure is anything that causes people to engage in a particular pattern of activity. Structures can be physical, such as the work environment, or they can be assumptions or beliefs that are broadly held, such as the ideas about bureaucracy we discussed earlier in this chapter. To create change, leaders can change the structures that are producing current patterns of organization.

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There are three ways in which self-organizing structures can be altered (Olson & Eoyang, 2001). First, a leader can influence the **boundary conditions** that establish the limits for emergent activity. Boundary conditions define the degree of discretion that is available to employees for self-directed action. Giving employees more responsibility, empowering them to make decisions at the local level, and providing them with more discretion in the work they do are some of the ways that the boundary conditions may be expanded. The more undefined the boundaries, the more self-organizing can be expected.

Second, self-organizing is altered through the introduction of **disturbances** to the system. Sometimes this can be as simple as helping employees learn about the tensions that exist within an organization around existing patterns of self-organizing activity. For example, there are nearly always significant differences in perspective among different subgroups in an organization. Helping employees to have conversations with others who have significantly different perspectives can introduce a positive disturbance that causes people to reorganize their activities to overcome hidden structures. In manufacturing organizations, for instance, it is common for engineering and production departments to be isolated from one another. Dialogue that includes and connects the employees from such groups can help them overcome and change the structural assumptions that may cause them to self-organize in ways that antagonize the other. The conversation itself can be a catalyst for change.

One final suggestion is a reminder to pay particular attention to the flows and connections that exist among employees across an organizational system. It is essential to healthy organizing to regularly create opportunities for transformational connections, in which employees can learn about the perspectives of other areas of an organization. As they develop and maintain healthy connections, they will empathize with and consider those perspectives as they engage in their own self-organizing activities.

The CAS approach, as indicated earlier, provides both a perspective and a set of principles that can be used in many ways. Many methodologies build on the assumptions of the CAS approach. These include appreciative inquiry and others such as open space technology, whole systems change, future search, and more. In this section, we have barely scratched the surface of the variety of practices that can be used to catalyze change.

Planning a Change Management Process

The perspectives we have reviewed in this section provide a very brief menu of the options that are available to leaders as they consider how to manage change. In reality, many of these can be used together, and they should not be considered mutually exclusive. For example, Kotter's model can be seen as an overall framework for designing a long-term change process. The Open Space or appreciative inquiry models can be used in certain parts of the Kotter process—for example, in the creation of a guiding coalition or creating a vision for the change.

Moreover, there are many, many practices and methodologies that may align in different ways with the framework of questions provided in this section. These can be used in different combinations to design change processes that meet the needs of a particular context.

? Concept Check

1. What are organizational development (OD) and change management?
2. What questions may be used to guide OD and change management?
3. What are the common models of OD and change management?

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9.6: Summary

Key Terms

Abundance-based change

Leaders assume that employees will change if they can be inspired to aim for greater degrees of excellence in their work.

Appreciative conversations

Intense, positively framed discussions that help people develop common ground as they work together to co-create a positive vision of an ideal future for their organization.

Appreciative inquiry model

A model specifically designed as an abundance-based, bottom-up, positive approach.

Boundary Conditions

Define the degree of discretion that is available to employees for self-directed action.

Bureaucratic model

Max Weber's model stating that organizations will find efficiencies when they divide the duties of labor, allow people to specialize, and create structure for coordinating their differentiated efforts within a hierarchy of responsibility.

Centralization

The concentration of control of an activity or organization under a single authority.

Change agents

People in the organization who view themselves as agents with discretion to act.

Change management

The process of designing and implementing change.

Command-and-control

The way in which people report to one another or connect to coordinate their efforts in accomplishing the work of the organization.

Complex Adaptive Systems (CAS)

A model that views organizations as constantly developing and adapting to their environment, much like a living organism.

Conventional mindset

Leaders assume that most people are inclined to resist change and therefore need to be managed in a way that encourages them to accept change.

Culture change

Involves reshaping and re-imagining the core identity of the organization.

Deficit-based change

Leaders assume that employees will change if they know they will otherwise face negative consequences.

Differentiation

The process of organizing employees into groups that focus on specific functions in the organization.

Disturbances

Can cause tension amongst employees, but can also be positive and a catalyst for change.

Emergent or bottom-up approach

Organizations exist as socially constructed systems in which people are constantly making sense of and enacting an organizational reality as they interact with others in a system.

Entrepreneurship

The process of designing, launching, and running a new business.

Flat organization

A horizontal organizational structure in which many individuals across the whole system are empowered to make organizational decisions.

Formal organization

A fixed set of rules of organizational procedures and structures.

Formalization

The process of making a status formal for the practice of formal acceptance.

Geographic structures

Occur when organizations are set up to deliver a range of products within a geographic area or region.

Group-level change

Centers on the relationships between people and focuses on helping people to work more effectively together.

Horizontal organizational structure

Flat organizational structure in which many individuals across the whole system are empowered to make organizational decisions.

Incremental change

Small refinements in current organizational practices or routines that do not challenge, but rather build on or improve, existing aspects and practices within the organization.

Individual-level change

Focuses on how to help employees to improve some active aspect of their performance or the knowledge they need to continue to contribute to the organization in an effective manner.

Informal organization

The connecting social structure in organizations that denotes the evolving network of interactions among its employees, unrelated to the firm's formal authority structure.

Intentionality

The degree to which the change is intentionally designed or purposefully implemented.

Kotter's change model

An overall framework for designing a long-term change process.

Level of organization

The breadth of the systems that need to be changed within an organization.

Lewin's change model

Explains a very basic process that accompanies most organizational changes.

Managed change

How leaders in an organization intentionally shape shifts that occur in the organization when market conditions shift, supply sources change, or adaptations are introduced in the processes for accomplishing work over time.

Matrix structure

An organizational structure that groups people by function and by product team simultaneously.

Mechanistic bureaucratic structure

Describes organizations characterized by (1) centralized authority, (2) formalized procedures and practices, and (3) specialized functions. They are usually resistant to change.

OD consultant

Someone who has expertise in change management processes.

Organic bureaucratic structure

Used in organizations that face unstable and dynamic environments and need to quickly adapt to change.

Organizational change

The movement that organizations take as they move from one state to a future state.

Organizational design

The process by which managers define organizational structure and culture so that the organization can achieve its goals.

Organizational development (OD)

Techniques and methods that managers can use to increase the adaptability of their organization.

Organization-level change

A change that affects an entire organizational system or several of its units.

Organizational structure

The system of task and reporting relationships that control and motivate colleagues to achieve organizational goals.

Participatory management

Includes employees in deliberations about key business decisions.

Planned change

An intentional activity or set of intentional activities that are designed to create movement toward a specific goal or end.

Positive or appreciative mindset

Leaders assume that people are inclined to embrace change when they are respected as individuals with intrinsic worth, agency, and capability

Product structures

Occurs when businesses organize their employees according to product lines or lines of business.

Scope of change

The degree to which the required change will disrupt current patterns and routines.

Span of control

The scope of the work that any one person in the organization will be accountable for.

Specialization

The degree to which people are organized into subunits according to their expertise—for example, human resources, finance, marketing, or manufacturing.

Strategic change

A change, either incremental or transformational, that helps align an organization's operations with its strategic mission and objectives.

Structural change

Changes in the overall formal relationships, or the architecture of relationships, within an organization.

Technological change

Implementation of new technologies often forces organizations to change.

Top-down change

Relies on mechanistic assumptions about the nature of an organization.

Transformational change

Significant shifts in an organizational system that may cause significant disruption to some underlying aspect of the organization, its processes, or its structures.

Unplanned change

An unintentional activity that is usually the result of informal organizing.

Vertical organizational structure

Organizational structures found in large mechanistic organizations; also called "tall" structures due to the presence of many levels of management.

Summary of Learning Outcomes

9.2 Organizational Structures of Design

1. What are mechanistic versus organic organizational structures?

The organizational structure is designed from both the mechanistic and the organic points of view, and the structure depends upon the extent to which it is rigid or flexible. Flexible structures are also viewed as more humanistic than mechanistic structures. The mechanistic organizational structure is similar to Max Weber's bureaucratic organization. Organic structures are more flexible in order to cope with rapidly changing environments. These structures are more effective if the environment is dynamic, requiring frequent changes within the organization in order to adjust to change. It is also considered to be a better form of organization when employees seek autonomy, openness, change, support for creativity and innovation, and opportunities to try new approaches.

All organizations need structure to accomplish their work, and they need the ability to change in order to sustain and renew themselves over time.

9.3 Organizational Change

2. What are the fundamental dimensions of change?

It is often said that the only constant is change. Managers need to have the ability to understand the dimensions of change, know what drives change, and know how to implement changes to meet and exceed organizational goals. The three types of change are structural, technological, and cultural changes. Managers need to understand change as organizations evolve and grow over time.

One of the key responsibilities of management is to design organizational structures that will allow an organization to accomplish its primary objectives. The structure should always match the need for coordination. Often, managers cannot tell what form the organization should take until they experience the informal organization that determines how work is actually accomplished. Only then can they understand how to draw on the concepts of bureaucracy to appropriately design a structure that will maximize the likelihood of organizational success.

9.4 Managing Change

3. How do managers deal with change?

As an organization grows and matures, change becomes necessary for its sustained viability. Thus, another key responsibility for most leaders is the task of designing and managing change. We have reviewed several questions that should be considered when designing a change process, and we have explored several approaches that may be used to guide the development of organizational change.

The field of knowledge about how to change and develop organizations is vast and can be somewhat confusing to the novice learner. The material presented in this chapter provides an overview of key ideas, but there is so much more to learn. Should you wish to become an influential leader of change, it is important to learn more about this very important field of research and practice.

? Chapter Review Questions

1. What is an organizational structure?
2. What are different types of organizational structures?
3. What is organizational design?
4. What concepts should guide decisions about how to design structures?
5. What is organizational change?
6. What are the fundamental dimensions of change?
7. Define organizational development (OD) and change management.
8. What questions may be used to guide OD and change management?
9. What are the common models of OD and change management?

Management Skills Application Exercises

1. Refer to Exhibit 9.2, Exhibit 9.3, and Exhibit 9.5 for this exercise. Pick a business that you are familiar with and draw their existing organizational chart. You may be able to infer much of the information from their website or through a short interview with someone in their organization. After completing this task, construct an alternative organizational chart and comment on why it may be more effective than the current organizational structure and what risks that new structure may have.
2. You have been assigned the task of working with a company that had a traditional, functional organizational structure with sales, marketing, product development, finance and accounting, and operations teams each reporting to a VP, who then reported to the CEO. The company wants to move to a matrix organization that will retain the efficiencies of the functional organization but also groups employees by product teams. You have been asked to comment on how to manage this change and how to communicate and respond to employee concerns. Specifically, you need to address the following questions: What are the desired impacts or benefits of this project on the organization? What are the emotions that your employees may have about this organizational change? How could the employees' emotions impact the organization or its operations? How can the organization manage these emotions, or in what ways do you think they should manage these emotions to get the desired outcome?

Managerial Decision Exercises

1. Place yourself in the position of a CEO who is contemplating a reorganization of your company and has received conflicting opinions from two of your trusted reports. Presently you are a wholesaler with 45 regional warehouses who acquires products from manufacturers and distributes them to retailers and service establishments. You have over 100,000 SKUs (stock keeping unit) ranging from ACE bandages to Ziploc bags. You have 825 field-based sales representatives who represent all the products within a geographic area.

One of the ideas that has been brought up by the vice president of marketing is to specialize the sales force into three groups, fashion retail, general retail, and services. Basically, individual sales representatives would be able to specialize with greater expertise and product knowledge to better serve customers. The vice president of sales fears that many of her salespeople will leave due to the expanded geography that this change would require.
What process would you take to address the concerns of your managers? How would you implement the plan? What customer considerations would you need to address?

2. You have recently accepted the position of director for a full-service retirement home that has three components. The first component is for retired individuals and married couples who can still manage on their own but appreciate the amenities such as medical care and having other residents that they interact with through planned activities. The second is for residents who are still relatively healthy but do need assistance for specific tasks such as mobility and the like. The third section is for individuals with chronic health issues and palliative care patients.

You have learned during the interview process that the facility has performance and morale issues and that the previous director had a rigid structure, did not allow workers from different roles to interact, and wanted all decisions to be directed to her. This has led to dramatic staff turnover and a larger number of empty units compared to other facilities.

As the incoming new director, you will need to address the staff, and your new assistant asks whether you would like to address the staff in one large room or in smaller meeting rooms with employees from the different functional units. She also asks how to handle the workers who are from different shifts. Make your communication decisions and write up an opening statement to make to the employees before you open the meeting to questions.

Critical Thinking Case

Danny Meyer Leads His Company through the Challenges of Eliminating Tips

What happens when your CEO wants to remove the tip structure from your restaurant? Do you complain about the new prices as a customer? Do you worry about your paychecks as a server?

Danny Meyer, CEO of Union Square Hospitality (home to some of the most successful New York restaurants), discovered these answers when he began eliminating the tip structure in most of his restaurants. He had seen firsthand the largest negative impact of a tipping culture: employees stuck in front-line positions with no chance to advance to management without taking significant pay cuts.

Meyer began by first involving the affected employees in town hall talks. These town halls happened months before any publicity was released. Meyer then hosted town halls with customers to explain the importance of fair wages for all his employees at the restaurant, not just the few who served the food. The transition period for each restaurant to eliminate tips was usually three to six months.

As a result of eliminating the tip structure in most of his restaurants, Meyer has been able to increase the pay structure for cooks at those locations, which enables him to fill more cook positions and address a common industry shortage. Meyer has also been able to hire employees with a purpose to deliver exceptional hospitality. Meyer encourages his employees to take care of each other first and to then take care of the customer, which creates a virtuous cycle of hospitality.

Meyer constantly uses feedback from his employees even after the tip structure was eliminated. He wants to ensure that each employee feels their voice is heard and understood. Employees continue to have access to town hall meetings and internal feedback channels to offer honest feedback.

Critical Thinking Questions

1. What type of change is this: transformational or incremental? Why?
2. What level(s) of change is Meyer aiming for in this case?
3. What models are consistent with Meyer’s process for designing and implementing change?

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CHAPTER OVERVIEW

10: Human Resource Management

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10.1: Biblical Insight



Applying the Bible to Business

Remember the golden rule? The scriptures stated, "Love your neighbor as yourself.” Mark 12:31. This means treating others the way you would like to be treated. This can easily be demonstrated in the role of a manager. For example, we can look at how a manager treats their employees and customers with fairness, kindness, honesty, and other ethical issues.

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10.2: Introduction

Learning Objectives

After reading this chapter, you should be able to answer these questions:

1. What has been the evolution of human resource management over the years, and what is the current value it provides to an organization?
2. How does the human resources compliance role of HR provide value to a company?
3. How do performance management practices impact company performance?
4. How do companies use reward strategies to influence employee performance and motivation?
5. What is talent acquisition, and how can it create a competitive advantage for a company?
6. What are the benefits of talent development and succession planning?

Exploring Managerial Careers

Eva Hartmann, Trellis LLC

Eva Hartmann has nearly 20 years of experience as a strategic, results-driven, innovative leader with significant expertise in human resources strategy, talent and leadership development, and organizational effectiveness. She has worked in a variety of industries, from manufacturing to Fortune 500 consulting. Eva is a transformational change agent who has developed and led strategic human capital programs and talent initiatives in multiple challenging environments globally. Eva is passionate about enhancing both individual and organizational performance.

Eva began her career in one of the large "Big 6" management consulting firms at the time, and she happily returned several years ago to consulting. She is the founder and president of Trellis LLC, a human capital consulting and staffing firm in Richmond, Virginia.

Prior to Trellis, Eva was the global human resources leader for a large global manufacturer of plastic film products and was responsible for the HR strategy and operations of a $600 million global division. In this role, Eva led a global team of HR managers in North and South America, Europe, and Asia to support global HR initiatives to drive business results and build human capital and performance across the division.

Eva has also held a variety of leadership and managerial roles in both human resources and quality functions at several nationally and globally recognized companies, including Wachovia Securities, Genworth Financial, Sun Microsystems, and Andersen Consulting (now Accenture).

Eva holds an MBA from the College of William and Mary in Williamsburg, Virginia, and a BA in anthropology from the University of Virginia in Charlottesville, Virginia. She is also an adjunct faculty member with the University of Richmond Robins School of Business. Eva currently serves on the board of the Society of Human Resource Management (SHRM) of Richmond, Virginia.

Human resource management is an area that has evolved a great deal over the last few decades. From the days of the very tactical "personnel" management to the current and more strategic state of human resources, businesses and HR professionals alike have changed the way they see the function. In the current economy, human capital assets (i.e., people) are the greatest value creators. Companies compete for talent, and they distinguish themselves in their business performance by the talent they have in their ranks. Human resource management, therefore, becomes a key lever companies can utilize to find, recruit, develop, and grow talent for competitive advantage. This chapter discusses the value and benefits that human resource management brings to an organization, as well as the challenges that the function still faces as a strategic partner to the business.

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10.3: An Introduction to Human Resource Management

Learning Objectives

1. What has been the evolution of human resource management (HRM) over the years, and what is the current value it provides to an organization?

Human resource management over the years has served many purposes within an organization. From its earliest inception as a primarily compliance-type function, it has further expanded and evolved into its current state as a key driver of human capital development. In the book *HR From the Outside In* (Ulrich, Younger, Brockbank, Younger, 2012), the authors describe the evolution of HR work in "waves." Wave 1 focused on the administrative work of HR personnel, such as the terms and conditions of work, delivery of HR services, and regulatory compliance. This administrative side still exists in HR today, but it is often accomplished differently via technology and outsourcing solutions. The quality of HR services and HR's credibility came from the ability to run administrative processes and solve administrative issues effectively. Wave 2 focused on the design of innovative HR practice areas such as compensation, learning, communication, and sourcing. The HR professionals in these practice areas began to interact and share with each other to build a consistent approach to human resource management. The HR credibility in Wave 2 came from the delivery of best-practice HR solutions.

Wave 3 HR, over the last 15–20 years or so, has focused on the integration of HR strategy with the overall business strategy. Human resources appropriately began to look at the business strategy to determine what HR priorities to work on and how to best use resources. HR began to be a true partner to the business, and the credibility of HR was dependent upon HR having a seat at the table when the business was having strategic discussions. In Wave 4, HR continues to be a partner to the business, but has also become a competitive practice for responding to external business conditions. HR looks outside their organizations to customers, investors, and communities to define success—in the form of customer share, investor confidence, and community reputation. HR's credibility is thus defined in terms of its ability to support and drive these external metrics. Although each "wave" of HR's evolution is important and must be managed effectively, it is the "outside in" perspective that allows the human resource management function to shine via the external reputation and successes of the organization.

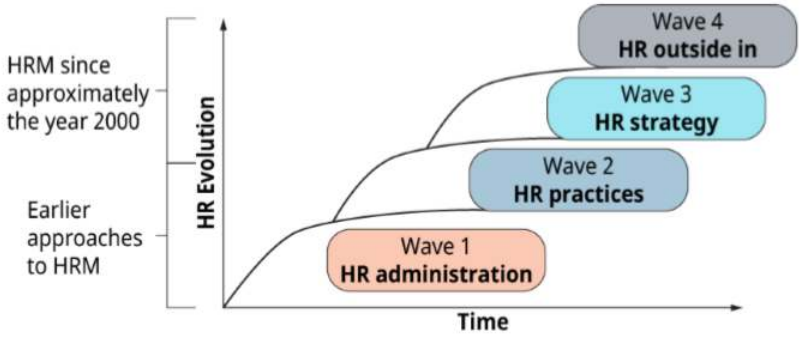


Exhibit 10.2 Evolution of HR Work in Waves (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Catching the Entrepreneurial Spirit

Human Resources Outsourcing—Entrepreneurial Ventures

Human resources is a key function within any company, but not all companies are able to afford or justify full-time HR staff. Over the last decade, HR outsourcing has become a good business decision for many small companies whose current staff doesn't have the bandwidth or expertise to take on the risks of employee relations issues, benefits and payroll, or HR compliance responsibilities. This has led many HR practitioners to try out their entrepreneurial skills in the areas of HR outsourcing and "fractional HR."

Human resources outsourcing is very commonly used by smaller companies (and often large companies, too) to cover such tasks as benefits and payroll management. This is an area that has been outsourced to third parties for many years. More recent is the trend to have "fractional HR" resources to help with the daily/weekly/monthly HR compliance, employee relations, and

talent management issues that companies need to address. Fractional HR is a growing industry, and it has become the service offering of many entrepreneurial HR ventures. Fractional HR is essentially as it sounds—it is the offering of HR services to a company on a part-time or intermittent basis when the company may not be able to justify the cost of a full-time HR resource. An HR professional can be available onsite for a specified number of hours or days weekly or monthly, depending on the company's needs and budget. The HR professional handles everything from HR compliance issues and training to employee issues support. Also, for companies that are keen on the development of employees, the HR resource can drive the talent management processes—such as performance management, succession planning, training, and development—for companies that require more than just basic HR compliance services.

How does a business leader decide whether HR outsourcing is needed? There are generally two factors that drive a leader to consider fractional HR or HR outsourcing—time and risk. If a leader is spending too much time on HR issues and employee relations, he may decide that it is a smart tradeoff to outsource these tasks to a professional. In addition, the risk inherent in some HR issues can be very great, so the threat of having a lawsuit or feeling that the company is exposed can lead the company to seek help from a fractional HR professional.

HR entrepreneurs have taken full advantage of this important trend, which many say will likely continue as small companies grow and large companies decide to off-load HR work to third parties. Some HR companies offer fractional HR as part of their stated HR services, in addition to payroll and benefits support, compensation, and other HR programmatic support. Having a fractional HR resource in place will often illuminate the need for other HR services and program builds, which are generally supported by those same companies. Whether you are an individual HR practitioner or have a small company of HR practitioners and consultants, fractional HR and HR outsourcing can be a very viable and financially rewarding business model. It can also be very personally rewarding, as the HR professional enables smaller companies to grow and thrive, knowing that its HR compliance and processes are covered.

Discussion Questions

1. What do you believe is contributing to the growth of the fractional HR and HR outsourcing trend? Do you expect this trend to continue?
2. At what point should a company consider bringing on a full-time HR resource instead of using a fractional HR resource? What questions should the company ask itself?

Human resource management provides value to an organization, to a large extent, via its management of the overall **employee life cycle** that employees follow—from hiring and onboarding to performance management and talent development, all the way through to transitions such as job change and promotion, to retirement and exit. **Human capital** is a key competitive advantage to companies, and those who utilize their human resource partners effectively to drive their human capital strategy will reap the benefits.

Human resource management includes the leadership and facilitation of the following key life cycle process areas:

- Human resources compliance
- Employee selection, hiring, and onboarding
- Performance management
- Compensation rewards and benefits
- Talent development and succession planning

A human resource department is responsible for driving the strategy and policies in these areas to be in accordance with and in support of the overall business strategy. Each of these areas provides a key benefit to the organization and impacts the organization's value proposition to its employees.

? Concept Check

1. How has the function of human resource management evolved over the years?
2. In what way do you usually interact with human resources?

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10.4: Human Resource Management and Compliance

Learning Objectives

1. How does the human resources compliance role of HR add value to an organization?

Human resources compliance is an area that traces back to the very origin of the human resources function—to administrative and regulatory functions. Compliance continues to be a very important area that HR manages, and there are numerous regulations and laws that govern the employment relationship. HR professionals must be able to understand and navigate these laws to help their organizations remain compliant and avoid having to pay fines or penalties. The additional threat of reputational harm to the organization is another reason that HR needs to be aware and alert to any potential gaps in compliance.

Some of the most common examples of laws and regulations that govern the **employer-employee relationship** include the following (SHRM.org):

- **Age Discrimination in Employment Act (ADEA)**
- **Americans with Disabilities Act (ADA)**
- **Fair Labor Standards Act (FLSA)**
- **Family and Medical Leave Act (FMLA)**
- **National Labor Relations Act (NLRA)**
- **Worker Adjustment and Retraining Notification Act (WARN)**

The **Age Discrimination in Employment Act (ADEA)** of 1967 protects individuals who are 40 years of age or older from employment discrimination based on age. These protections apply to both employees and job applicants. It also makes it unlawful to discriminate based on age with respect to any terms of employment, such as hiring, firing, promotion, layoff, compensation, benefits, job assignments, and training.

The **Americans with Disabilities Act (ADA)** of 1990 prohibits private employers, state and local governments, employment agencies, and labor unions from discriminating against qualified individuals with disabilities. The ADA defines an individual with a disability as a person who:

1. has a mental or physical impairment that substantially limits one or more major life activities
2. has a record of such impairment or
3. is regarded as having such impairment. An employer is required to make a reasonable accommodation to the known disability of a qualified applicant or employee if it would not impose an “undue hardship” on the operation of the employer’s business

The **Fair Labor Standards Act (FLSA)** of 1938 establishes the minimum wage, overtime pay, recordkeeping, and youth employment standards affecting full-time and part-time workers in the private sector and in federal, state, and local governments. Special rules apply to state and local government employment involving fire protection and law enforcement activities, volunteer services, and compensatory time off instead of cash overtime pay.

The **Family and Medical Leave Act (FMLA)** of 1993 entitles eligible employees to take up to 12 weeks of unpaid, job-protected leave in a 12-month period for specified family and medical reasons. FMLA applies to all public agencies, including state, local, and federal employers, local education agencies (schools), and private-sector employers who employed 50 or more employees in 20 or more workweeks in the current or preceding calendar year, including joint employers and successors of covered employers.

The **National Labor Relations Act (NLRA)** of 1947 extends rights to many private-sector employees, including the right to organize and bargain with their employer collectively. Employees covered by the act are protected from certain types of employers and union misconduct and have the right to attempt to form a union where none exists.

The **Worker Adjustment and Retraining Notification Act (WARN)** of 1988 generally covers employers with 100 or more employees, not counting those who have worked less than six months in the last 12 months and those who work an average of less than 20 hours a week. Regular federal, state, and local government entities that provide public services are not covered. WARN protects workers, their families, and communities by requiring employers to provide notification 60 calendar days in advance of plant closings and mass layoffs.

These are just a few of the key regulatory federal statutes, regulations, and guidance that human resources professionals need to understand to confirm organizational compliance. For additional information on HR compliance resources, the **Society of Human Resource Management (SHRM)** at SHRM.org maintains a plethora of resources for the HR professional and the businesses that they support.

To ensure the successful management and oversight of the many compliance rules and regulations, the human resources team must utilize best practices to inform and hold employees accountable to HR compliance practices. Some of these best practices include education and training, documentation, and audit. Each of these is described in greater detail and will help HR achieve its important goal of maintaining HR compliance for the organization.

Education and training in the areas of compliance and labor law are critical to ensure that all applicable laws and regulations are being followed. These laws can change from year to year, so the HR professionals in the organization need to ensure that they are engaged in ongoing education and training. It is not just imperative for the HR professional to receive training. In many organizations, managers receive training on key rules and regulations (such as FMLA or ADA, to name a few) so that they have a foundation of knowledge when dealing with employee situations and potential risk areas. Human resources and management need to partner to ensure alignment on compliance issues—especially when there is a risk that an employee situation treads into compliance regulation territory. See Table 10.1 for a partial list of federal labor laws by number of employees, as displayed on the Society for Human Resource Management website. For a full list, go to this website.

Refer to Table 10.1: Federal Labor Laws by Number of Employees.

Federal Labor Laws by Number of Employees

American Taxpayer Relief Act of 2012
Consumer Credit Protection Act of 1968
Employee Polygraph Protection Act of 1988
Employee Retirement Income Security Act of 1974 (ERISA)
Equal Pay Act of 1963
Fair and Accurate Credit Transaction Act of 2003 (FACT)
Fair Credit Reporting Act of 1969
Fair Labor Standards Act of 1938
Federal Insurance Contributions Act of 1935 (Social Security) (FICA)
Health Insurance Portability and Accountability Act of 1996 (if a company offers benefits) (HIPPA)
Immigration Reform and Control Act of 1986
These federal laws cover all employees of all organizations. Several other factors may apply in determining employer coverage, such as whether the employer is public or private, whether the employer offers health insurance, and whether the employer uses a third party to conduct background checks. Source: SHRM, https://www.shrm.org/, accessed 4 April 2024.

Table 10.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Documentation of the rules and regulations—in the form of an employee handbook—can be one of the most important resources that HR can provide to the organization to mitigate compliance risk. The handbook should be updated regularly and should detail the organization's policies and procedures and how business is to be conducted. Legal counsel should review any such documentation before it is distributed to ensure that it is up-to-date and appropriate for the audience.

Scheduling HR compliance audits should be part of the company's overall strategy to avoid legal risk. Noncompliance can cause enormous financial and reputational risk to a company, so it is important to have audits that test the organization's controls and preparedness. When the HR function takes the lead in implementing audits and other best practices, they create real value for the organization.

Concept Check

1. What are some of the key regulations that guide the compliance work of human resource management?
2. What does an employee handbook provide to an organization?

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10.5: Performance Management

Learning Objectives

1. How do performance management practices impact company performance?

Performance management practices and processes are among the most important that human resources manages, yet they are also among the most contentious processes in an organization. Many people view performance management as a human resources role and believe that it is in some parallel path with the business. On the contrary, for the process to be successful, it should not only be human resources that is responsible for driving performance. For the (typically) annual performance management process, human resources and line management should partner on the implementation and ongoing communication of the process. Although HR is responsible for creating and facilitating the performance management processes, it is the organizational managers that need to strongly support the process and communicate the linkage of performance management to overall organizational goals and performance.

In my experience, it was helpful when business leadership emphasized that performance management isn't a human resources process—it is a mission-critical business process. If a business manager can't track and drive performance at the individual level, then the overall organization won't know how it's tracking on overall organizational goals. Before discussing the state of performance management in the workplace today, it is important to understand the origin of performance management. Performance management began as a simple tool to drive accountability (as it still does) but has evolved more recently into a tool used for employee development. Performance management can be tracked back to the U.S. military's "merit rating" system, which was created during World War I to identify poor performers for discharge or transfer (Capelli & Tavis, 2016).

After World War II, about 60% of all U.S. companies were using a performance appraisal process, and by the 1960s, nearly 90% of all U.S. companies were using one. Although the rules around job seniority determined pay increases and promotions for the unionized worker population, strong performance management scores meant good advancement prospects for managers. In the beginning, the notion of using this type of system to improve performance was more of an afterthought and not the main purpose. By the 1960s, when we started to see a shortage of managerial talent, companies began to use performance systems to develop employees into supervisors, and managers into executives.

In 1981, when Jack Welch became CEO of General Electric, he championed the forced-ranking system—another military creation. He did this to address the long-standing concern that supervisors failed to label real differences in performance (Goler et al., 2016). GE utilized this performance management system to shed the people at the bottom. They equated performance with people's inherent capabilities and ignored their potential to grow. People were categorized as "A" players (to be rewarded), "B" players (to be accommodated), and "C" players (to be dismissed). In the GE system, development was reserved for the "A" players—and those with high potential were chosen to advance to senior positions. Since the days of GE's forced ranking, many companies have implemented a similar forced-ranking system, but many have backed away from the practice. After Jack Welch retired, GE backed away from the practice as well. Companies, GE included, saw that it negatively fostered internal competition and undermined collaboration and teamwork and thus decided to drop forced ranking from their performance management processes.

Most people agree, in theory, that performance management is important. What people may *not* agree upon is how performance management should be implemented. As the dissatisfaction with performance management processes began to increase, some companies began to change the way they thought about performance. In 2001, an "Agile Manifesto" was developed by software developers and "emphasized principles of collaboration, self-organization, self-direction, and regular reflection on how to work more effectively, with the aim of prototyping more quickly and responding in real-time to customer feedback and changes in requirements." (Goler et al., 2016). The impact on performance management was clear, and companies started to think about performance management processes that were less cumbersome, incorporated frequent feedback, and delivered performance impacts.

In a recent public survey by Deloitte Services, 58% of executives surveyed believed that their current performance management approach drives neither employee engagement nor high performance. They need something more nimble, real-time, and individualized—and focused on fueling performance in the future rather than assessing it in the past (Buckingham & Goodall, 2015). In light of this study, Deloitte became one of the companies that has recently sought to redesign their performance

processes. As part of their “radical redesign,” they seek to see performance at the individual level, and thus they ask team leaders about their own future actions and decisions with respect to each individual. They ask leaders what they’d do with their team members, not what they think of them (Buckingham & Goodall, 2015). The four questions that Deloitte asks of its managers are as follows:

- Given what I know of this person’s performance, and if it were my money, I would award this person the highest possible compensation increase and bonus.
- Given what I know of this person’s performance, I would always want him or her on my team.
- This person is at risk for low performance.
- This person is ready for promotion today.

Although there has been some discussion over the last several years about some companies wanting to drop performance appraisals completely, most of the research seems to support that the total absence of performance management doesn’t help either. A recent global survey by CEB Global reports that more than 9,000 managers and employees think that not having performance evaluations is worse than having them (Goler et al., 2016). Their findings indicate that even though every organization has people who are unhappy with their bonuses or disappointed that they weren’t promoted, research shows that employees are more willing to accept an undesirable outcome when the process is fair. The key question really becomes,

How can HR help the business create a process to fairly evaluate performance and enhance employee development while not burdening the business with undue bureaucracy and non-value-added activities?

Managing Change

Global versus Local HR

Multinational companies are always challenged to determine the balance between global and local needs when creating a human resource management strategy. Some large companies weigh heavily on the side of centralization, with very few local deviations from the global strategy. Others may allow more localization of processes and decision-making if there are very specific local cultural needs that must be addressed. In either case, companies are well-served by maintaining global standards while also allowing for local market adaptation in the human resources areas where it makes the most sense.

According to the *MIT Sloan Management Review* (2012) article “Six Principles of Effective Global Talent Management," most multinational companies introduce global performance standards, competency profiles, and performance management tools and processes. These are the human resources areas that are most closely linked to the overall strategies and goals, and thus remain at the global level. Those HR processes that are not perceived as being as closely linked to the strategy and that may need to have local market inputs include processes such as training and compensation. Hiring practices may also need to be locally adapted, due to country-specific labor laws and challenges. One caveat, however, is that a company may limit itself in terms of its global talent management if it has too many country-specific adaptations to hiring, assessment, and development processes for top talent. It is important that the company takes a global approach to talent management so that cross-learning opportunities and cross-cultural development opportunities can take place.

One of the most important aspects of global talent management is that a company can break down silos and pollinate the business with talented employees from around the globe. Some companies even have global leadership programs that bring together high-potential leaders from across the organization to build camaraderie, share knowledge, and engage in learning. Others have created rotational programs for leaders to be able to experience new roles in other cultures in order to build their personal resumes and cultural intelligence. Human resources can have an enormous impact on the company’s ability to harness the power of a global talent pool when they create a global network for talent while also balancing this with the requirements of the local market.

Discussion Questions

1. What are the challenges of a company developing a different competency model or performance management process for each of its local offices?

2. Why might compensation programs and hiring practices need to have local adaptation? What would be the risks if these were not adapted to local markets?

As organizations evaluate their options for a performance management system, human resources and business leadership need to consider several challenges that will need to be addressed—no matter what the system (Capelli & Tavis, 2016).

The first is the challenge of aligning individual and company goals. Traditionally, the model has been to "cascade" goals down through the organization, and employees are supposed to create goals that reflect and support the direction set at the top. The notion of **SMART** goals (**Specific, Measurable, Achievable, Relevant, Time-bound**) has made the rounds over the years, but goal setting can still be challenging if business goals are complex or if employee goals seem more relatable to specific project work than to the overall top-line goals. The business and the individual need to be able to respond to goal shifts, which occur very often in response to the rapid rate of change and changing customer needs. This is an ongoing issue that human resources and business leadership will need to reconcile.

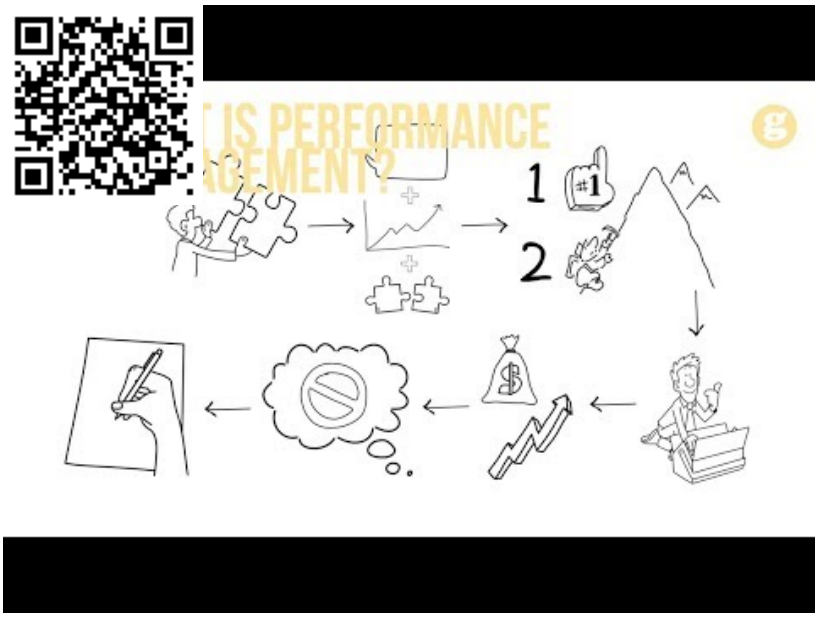
The next key challenge to think about when designing a performance management process is rewarding performance. Reward structures are discussed later in this chapter, but reward systems must be rooted in performance management systems. Currently, the companies that are redesigning their performance processes are trying to figure out how their new practices will impact their **pay-for-performance** models. Companies don't appear to be abandoning the concept of rewarding employees based on and driven by their performance, so the linkage between the two will need to be redefined as the systems are changed.

The identification of poor performers is a challenge that has existed since the earliest days of performance management, and even the most formal performance management process doesn't seem to be particularly good at weeding out poor performers. A lot of this is due to the managers who evaluate employees and are reluctant to address the poor performers that they're seeing. Also, the annual performance management process tends to make some managers feel that poor performance should be overlooked during the year and only addressed (often ineffectively) during a one-per-year review. Whatever new performance management models an organization adopts, they will have to ensure that poor performance is dealt with in real time and is communicated, documented, and managed closely.

Avoiding legal troubles is another ongoing challenge for organizations and is another reason for real-time communication and documentation of performance issues. Human resources supports managers as they deal with employee relations issues, and the thought of not having a formal, numerical ratings system is unfathomable for some people who worry about defending themselves against litigation. However, because even formal performance processes can be subjective and may reveal ratings bias, neither the traditional formal process nor some of the radical new approaches can guarantee that legal troubles will never develop. From my experience, the best strategy for effective and fair performance management is real-time communication and documentation of issues. The employee is told about his or her performance issues (in as close to real time as possible), and the manager has documented the performance issues and conversations objectively and has engaged human resources with any larger or more complex issues.

"Managing the feedback fire hose" and keeping conversations, documentation, and feedback in a place where it can be tracked and utilized is an ongoing challenge. The typical annual performance process is not conducive to capturing ongoing feedback and conversations. There have been some new technologies introduced (such as apps) that can be used to capture ongoing conversations between managers and employees. General Electric uses an app called PD@GE (PD = performance development) that allows managers to pull up notes and materials from prior conversations with employees. IBM has a similar app that allows peer-to-peer feedback. Although there are clearly some technology solutions that can be used to help communicate and collect feedback, human resources will need to continue to communicate and reinforce rules around objectivity and appropriate use of the tools.

Performance management processes—traditional and inventive new approaches alike—will face the same challenges over time. Human resource management professionals need to be aware of these challenges and design a performance management system that addresses them in the format and within the context of their culture.



Concept Check

1. Where did the concept of performance management originate?
2. What are some of the key challenges of any performance management process?

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10.6: Influencing Employee Performance and Motivation

Learning Objectives

1. How do companies use rewards strategies to influence employee performance and motivation?

Both performance management and rewards systems are key levers that can be used to motivate and drive individual and group performance ... which leads to overall organizational performance, productivity, and growth. Performance and rewards systems are also "cultural" in that they provide a glimpse into the way a company manages the performance (or nonperformance) of its employees and to what extent they are willing to differentiate and reward for that performance. There has been a great deal of discussion over the years to identify best practices in the ways we differentiate and reward employees, which will also drive employee performance and motivation.

Before we can talk about best practices and findings in rewards and motivation systems, we must first define the terms. Rewards systems are the framework that an organization (generally via human resources) creates and manages to ensure that employee performance is reciprocated with some sort of reward (e.g., monetary or other extrinsic) that will drive and motivate the employee to continue to perform for the organization. Rewards programs consist primarily of compensation programs and policies but can also include employee benefits and other extrinsic rewards that fulfill employee needs.

Within human resource management, the primary focus of a rewards program in an organization is to successfully implement a compensation system. Most organizations strive to implement a **pay-for-performance** compensation program that offers competitive pay in the marketplace and allows differentiation of compensation based on employee performance. Pay for performance begins with a philosophy that an organization adopts that states that they seek to reward the best-performing employees to enhance business performance and take care of those who can have the greatest impact.

A SHRM article by Miller (2011) identifies companies' top four drivers for moving to a pay-for-performance strategy:

- Recognize and reward high performers (46.9%)
- Increase the likelihood of achieving corporate goals (32.5%)
- Improve productivity (7.8%)
- Move away from an entitlement culture (7.8%)

The study also showed that the drivers differed depending on whether the company was high performing or lower performing (Miller, 2011). Almost half of high-performing organizations indicated that recognizing and rewarding top performers was the main driver of their pay-for-performance strategy, making it number one on the list of primary drivers. Lower-performing organizations did not appear to be as sure about the drivers behind their strategy. The number one driver among this group was achieving corporate goals. It appears that those top-performing organizations that implement a pay-for-performance strategy truly believe in the idea of differentiating among different levels of performance.

According to the WorldAtWork, Inc. (2015) "Compensation Programs and Practices Report," pay for performance continues to thrive, with better than 7 in 10 (72%) companies saying that they directly tie pay increases to job performance, and two-thirds (67%) indicating increases for top performers are at least 1.5 times the increase for average performers. In addition, the results of the survey seem to indicate that employees' understanding of the organization's compensation philosophy improves when there is higher differentiation in increases between average and top performers. The greater differentiation of increases is more visible and drives home the point that the company is serious about pay for performance.

A pay-for-performance program may have many components, and the human resources organization has the challenge of designing, analyzing, communicating, and managing the different components to ensure that the philosophy and the practices themselves are being carried out appropriately and legally. Human resource management's role in establishing pay for performance is that HR must engage business leadership to establish the following elements of the framework:

1. Define the organization's pay philosophy. Leadership needs to agree that they will promote a culture that rewards employees for strong performance.
2. Review the financial impacts of creating pay-for-performance changes. How much differentiation of performance will we have? What is the cost of doing this?

3. Identify any gaps that exist in the current processes. If any of the current human resources and compensation policies conflict with pay for performance, they should be reviewed and changed. Examples may lie in the performance management process, the merit increase process, and the short-term and long-term bonus processes. If the performance management process has gaps, these should be corrected before pay for performance is implemented; otherwise, this will generate more distrust in the system. The salary structure should also be benchmarked with market data to ensure that the organization is compensating according to where it wishes to be in the marketplace.
4. Update compensation processes with new pay for-performance elements. This includes the design of a **merit matrix** that ties employee annual pay increases to performance. Other areas of focus should be the design of a short-term bonus matrix and a long-term bonus pay-for-performance strategy. In other words, how does performance drive the bonus payouts? What is the differential (or multiplier) for each level?
5. Communicate and train managers and employees on the pay for-performance philosophy and process changes. Explain the changes in the context of the overall culture of the organization. This is a long-term investment in talent and performance.

Human resource management professionals play a key role in the rewards processes, and employee compensation is only one piece (although a key piece!) of the "total rewards" pie. WorldAtWork, Inc., defines *total rewards* as a "dynamic relationship between employers and employees" (2015). WorldAtWork, Inc., also defines a **total rewards strategy** as the six elements of total rewards that "collectively define an organization's strategy to attract, motivate, retain and engage employees." These six elements include

- **Compensation**—Pay provided by an employer to its employees for services rendered (i.e., time, effort, and skill). This includes both fixed and variable pay tied to performance levels.
- **Benefits**—Programs an employer uses to supplement the cash compensation employees receive. These health, income protection, savings, and retirement programs provide security for employees and their families.
- **Work-life effectiveness**—A specific set of organizational practices, policies, and programs, plus a philosophy that actively supports efforts to help employees achieve success at both work and home.
- **Recognition**—Formal or informal programs that acknowledge or give special attention to employee actions, efforts, behavior, or performance and support business strategy by reinforcing behaviors (e.g., extraordinary accomplishments) that contribute to organizational success.
- **Performance management**—The alignment of organizational, team, and individual efforts toward the achievement of business goals and organizational success. Performance management includes establishing expectations, skill demonstration, assessment, feedback, and continuous improvement.
- **Talent development**—Provides the opportunity and tools for employees to advance their skills and competencies in both their short- and long-term careers.



Exhibit 10.3 Total Rewards Model, WorldAtWork, Inc. (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Human resource management is responsible for defining and driving the various elements of an organization's total rewards strategy and ensuring that it is engaging enough to attract and retain good employees. It is easy to see that there are many different types of rewards that can motivate individuals for many different reasons. Nohria et al. (2008) describe four different drives that underlie motivation. They assert that these are hardwired into our brains and directly affect our emotions and behaviors. These

include the drives to acquire, bond, comprehend, and defend. Table 10.2 illustrates each of these drives, the primary levers found in an organization to address those drives, and the actions that should be taken to support the primary levers (Nohria et al., 2008).

Table 10.2 Hiring Top-Level Executives (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Steps in the Process	Poor Practices	Best Practices	Challenges
Anticipate.	Hiring only when you have an opening Poor succession plan Not anticipating future needs	Conduct ongoing analysis of future needs. Always evaluate the pool of potential talent.	Linking the talent plan to the strategic plan Incorporating HR into the strategic planning process
Specify the job.	Relying on generic job specifications	Continually defining the specific demands of the job Specifying specific skills and experience requirements	Dialogue between HR and top management
Develop a pool.	Limiting the pool Only looking for external or internal candidates	Develop a large pool. Include all inside and outside potential candidates.	Breaking organizational silos
Assess the candidates.	Don’t pick the first OK choice. Don’t only use your “gut."	Use a small pool of your best interviewers. Conduct robust background checks.	Training senior managers on interviewing technique
Hire the choice.	Don’t assume money is the only issue. Don’t only discuss the positives of the job.	Show active support of the candidates’ interests. Realistically describe the job. Ensure that offered compensation is fair to other employees.	Getting commitment of top managers Ensuring compensation equity
Integrate the new hire.	Don’t assume that the new hire is a “plug and play.”	Use a “top performer” as a mentor. Check in often early in the process even if no problems seem imminent.	Rewarding mentors
Review the process.	Don’t hang on to bad hires.	Remove bad hires early on. Review the recruiting practices. Reward your best interviewers.	Institutionalizing audit and review practices Admitting mistakes and moving on

Adapted from “The Definitive Guide to Recruiting in Good Times and Bad,” from “Hiring Top Executives: A Comprehensive End-to-End Process,” Harvard Business Review, May 2009.

The drive to acquire describes the notion that we are all driven to acquire scarce goods that bolster our sense of well-being. This drive also seems to be relative (we compare ourselves to others in what we have) and insatiable (we always want more). Within an organization, the primary lever to address this drive is the reward system, and the actions are to differentiate levels of performance, link performance to rewards, and pay competitively.

The drive to bond describes the idea that humans extend connections beyond just individuals to organizations, associations, and nations. In organizations, this drive is fulfilled when employees feel proud to be a part of the company and enjoy being a member of their team. Within an organization, the primary lever to address this drive is culture, and the actions are to foster mutual reliance and friendships, to value collaboration and teamwork, and to encourage best practice sharing.

The drive to comprehend is the concept of all of us wanting to make sense of the world around us and producing different theories and accounts to explain things. People are motivated by the idea of figuring out challenges and making a contribution. In organizations, the primary lever to address this drive is job design, and the actions are to design jobs that have distinct and important roles in the organization, as well as jobs that are meaningful and foster a sense of contribution.

The drive to defend is the instinct to defend ourselves, our families, and our friends, and it describes our defensiveness against external threats. This drive also tells us a lot about our level of resistance to change and why some employees have especially guarded or emotional reactions. In organizations, the primary levers that address this drive are performance management and resource-allocation processes, and the actions are to increase process transparency and fairness, and to build trust by being just in granting rewards, assignments, and other recognition.

Within human resource management, the area of compensation and reward systems is exceedingly complicated. In organizations, we think primarily of compensation rewards, which are very important drivers and motivators for most people. We need to also remember the other aspects of the total rewards strategy, as well as the drives and levers we can utilize to motivate employees.

? Concept Check

1. What does a pay-for-performance strategy mean for a company?
2. What is the first step in defining an organization's pay-for-performance strategy?

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10.7: Building an Organization for the Future

Learning Objectives

1. What is talent acquisition, and how can it create a competitive advantage for a company?

We've discussed some of the key focus areas that human resource management professionals need to address to ensure that employees are performing their roles well and are being fairly rewarded for their contributions. We haven't yet addressed how we think about where these employees come from—Whom do we hire? What skills do we need now and in the future? Where will we even look for these employees? What are some best practices? **Talent acquisition** is the area within human resource management that defines the strategy for selection, recruiting, and hiring processes and helps the organization fight the "**war for talent**" during good times and bad.

Hiring strong talent is a key source of competitive advantage for a company, yet so many companies do it poorly. Often, the recruiting and hiring processes happen reactively—someone leaves the organization, and then people scramble to fill the gap. Very few companies take a longer-term, proactive approach and work to create a strategic plan for talent acquisition. Fernandez-Araoz et al. (2009) advocated for a rigorous and strategic recruiting process that includes the following critical actions:

- Anticipate future leadership needs based on your strategic business plan.
- Identify the specific competencies required in each position you need to fill.
- Develop a sufficiently large candidate pool.

In organizations today, there are often pieces of the talent acquisition process that are outsourced to external recruiters rather than managed internally by human resources employees. While outsourcing specific searches is not an issue, there must be internal HR/talent acquisition employees responsible for creating the overall strategic plan for the recruiting function. Contract recruiters may then take responsibility for a piece of the overall process by leveraging the strategy and competencies that the HR team puts forth (Fernandez-Araoz et al., 2009).

Recruiting and hiring of high-level leadership candidates are associated with special risks and rewards. The risk that a key leadership position is vacant or becoming vacant poses a risk to the organization if it is left open for too long. These high-level positions are often harder to fill, with fewer candidates available and the critical importance to the organization's future of selecting the right talent. The reward, however, is that with due diligence and clear goals and competencies/skills defined for the position, the HR/talent acquisition professional can create a competitive advantage through the recruitment of key high-level talent.

The following best practices illustrate the key steps for effective recruiting of key leadership hires. Both human resources and business leadership should partner to discuss and define each of the elements to ensure alignment and support of the recruiting plan and process (Fernandez-Araoz et al., 2009).

Anticipate your needs. Every two to three years, there should be a review of high-level leadership requirements based on the strategic plan. Some of the questions to answer here are

- How many people will we need, and in what positions, in the next few years?
- What will the organizational structure look like?
- What must our leadership pipeline contain today to ensure that we find and develop tomorrow's leaders?

Specify the job. For each leadership position identified, specify competencies needed in each role. For example,

- Job-based: What capabilities will the job require?
- Team-based: Will the applicant need to manage political dynamics?
- Firm-based: What resources (supporting, talent, technology) will the organization need to provide the person who fills this role?

Develop the pool. Cast a wide net for candidates by asking suppliers, customers, board members, professional service providers, and trusted insiders for suggestions. It helps to start this process even before you have a role that you're hiring for. During succession planning and talent discussions internally, it helps to start making of list of internal *and* external contacts and potential candidates before the need arises.

Assess the candidates. Have the hiring manager, the second-level manager, and the top HR manager conduct a “behavioral event interview” with each candidate. Candidates will describe experiences they’ve had that are like situations they’ll face in the organization. Gain an understanding of how the candidate acted and the reasoning behind their actions. Make sure to evaluate a broad range of references to ask about results the candidate achieved.



Exhibit 10.4 The Job Fair A job fair, career fair, or career expo, like this one at the College of DuPage, is an event in which employers, recruiters, and schools give information to potential employees and job seekers attend hoping to make a good impression on potential employers. They also interact with potential coworkers by speaking face-to-face, exchanging resumes, and asking questions in an attempt to get a good feel for the work needed. Likewise, online job fairs give seekers another way to get in contact with probable employers using the Internet. (Credit: Taavi Burns/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Close the deal. Once a final candidate is chosen, to increase the chance that the job offer will be accepted, do the following:

- Sharing passion about the company and role and showing genuine interest in the candidate
- Acknowledging the opportunities and challenges of the role, differentiating the opportunities at your organization from those of your competitor
- Striking a creative balance between salary, bonuses, and other long-term incentives

Integrate the newcomer. It is important to integrate new hires into the company’s culture:

- During the first few months, have the managers and the HR team check in with each new hire.
- Assign a mentor (star employee) to provide ongoing support to each new hire.
- Check in with the new hire to ensure that they are getting enough support, and inquire about what other support might be needed. Ensure that new hires are adequately building new relationships throughout the organization.

Refer to Table 10.2: Hiring Top-Level Executives, adapted from Fernandez-Araoz et al. (2009).

By following these best practices, human resources and business leadership can ensure that the new hire is integrating well and has the best possible start in the new role. Talent acquisition is a key element of any human resource management program, and the right process can mean the difference between a poor hire and a distinct competitive advantage gained through top talent.

? Concept Check

1. What are some best practices for recruiting and hiring leadership candidates?
2. How can we ensure a more successful integration of the new hire?

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10.8: Talent Development and Succession Planning

Learning Objectives

1. What are the benefits of talent development and succession planning?

Talent development and **succession planning** are two of the most critical human resource management processes within an organization. You can work tirelessly to recruit and hire the right people, and you can spend a lot of time defining and redesigning your performance and rewards programs, but if you can't make decisions that effectively assess and develop the key talent that you have, then everything else feels like a wasted effort. Talent development describes all processes and programs that an organization utilizes to assess and develop talent. Succession planning is the process of reviewing key roles and determining the readiness levels of potential internal (and external!) candidates to fill these roles. It is an important process that is a key link between talent development and talent acquisition/recruiting.

The human resources function facilitates talent development activities and processes, but they are also heavily reliant on business inputs and support. Each of the talent development processes that will be discussed requires heavy involvement and feedback from the business. Like performance management, talent development is a process that HR owns and facilitates, but it is a true business process that has a fundamental impact on an organization's performance. Talent is a competitive advantage, and in the age of the "war for talent," an organization needs to have a plan for developing its key talent.

One of the key tools that is used in talent development is the talent review. This process generally follows an organization's performance management process (which is primarily focused on current employee performance) and is more focused on employee development and potential for the future. Talent reviews often employ the use of a **9-box** template, which plots employee performance versus employee potential and provides the reviewer with nine distinct options, or boxes, to categorize where the employee is.

Refer to Table 10.3: Performance and Potential Grid.

Table 10.3: Performance and Potential Grid

	Lowest potential rating	**Middle Potential Rating**	**Highest Potential Rating**
Highest Performance	John Smith Melanie Roper Keegan Flanagan	Chieh Zhang Edgar Orrelana	Rory Collins Aimee Terranova
Medium Performance	Joseph Campbell Alina Dramon Alex Joiner Lauren Gress	Christina Martin Thomas Weimeister	Richard Collins
Lowest Performance	Marty Hilton		

The performance axis ratings are low/medium/high and based on the employee's recent performance management rating. Low = below target, medium = at target, and high = above target. Like the performance rating, this reflects performance against objectives and the skills and competencies required in the employee's current role and function. Performance can change over time (for example, with a promotion or job change). Performance is overall a more objective rating than potential, which leaves the rater to make some assumptions about the future.

Potential is defined as an employee's ability to demonstrate the behaviors necessary to be successful at the next highest level within the company. **Competencies** and behaviors are a good indicator of an employee's potential. Higher-potential employees, no matter what the level, often display the following competencies: business acumen, strategic thinking, leadership skills, people skills, learning agility, and technology skills. Other indicators of potential may include:

- Top performance in current job
- Success in other positions held (within or outside of the company)

- Education/certifications
- Significant accomplishments/events
- Willingness and desire to advance

Managing Change

Tech in Human Resources

There has been a boom in HR technology and innovation over the last several years—and it is making some of the traditional HR systems from last decade seem enormously outdated. Some of the trends that are driving this HR tech innovation include mobile technology, social media, data analytics, and learning management. Human resources professionals need to be aware of some of the key technology innovations that have emerged as a result of these trends because there's no sign that they will be going away any time soon.

Josh Bersin of Bersin by Deloitte, Deloitte Consulting, LLP, (2017) wrote about some of these HR technology innovations in his SHRM.org article "9 HR Tech Trends for 2017". One of these technology innovations is the "performance management revolution" and the new focus on managing performance by team and not just by hierarchy. Performance management technologies have become more agile and real time, with built-in pulse surveys and easy goal tracking. Now, instead of the formal, once-a-year process that brings everything to a halt, these performance management technologies allow ongoing, real-time, and dynamic input and tracking of performance data.

Another HR tech trend named is the "rise of people analytics." Data analytics has become such a huge field, and HR's adoption of it is no exception. Some disruptive technologies in this area are predictive—they allow analysis of job change data and the prediction of successful versus unsuccessful outcomes. Predictive analytics technologies can also analyze patterns of e-mails and communications for good time-management practices or to predict where a security leak is likely to occur. One other incredible analytics application consists of a badge that monitors employees' voices and predicts when an employee is experiencing stress. That is either really cool or really eerie, if you ask me.

The "maturation of the learning market" is a fascinating trend to me, as an HR professional who grew up in the days of multiple in-class trainings and week-long leadership programs. Learning processes have changed greatly with the advent of some of these innovative HR technologies. Although many larger companies have legacy learning management systems (like Cornerstone, Saba, and SuccessFactors), there are many new and competitive options that focus on scaling video learning to the entire organization. The shift has gone from learning management to learning—with the ability to not only register and track courses online but to take courses online. Many companies are realizing that these YouTube-like learning applications are a great complement to their existing learning systems, and it is predicted that the demand will continue to grow.

Other trends of note include technologies that manage the contingent workforce, manage wellness, and automate HR processes via artificial intelligence. It is amazing to think about so many interesting and innovative technologies that are being designed for Human Resources. The investment in human capital is one of the most critical investments that a company makes, and it is refreshing to see that this level of innovation is being created to manage, engage, and develop this investment.

Discussion Questions

1. How does real-time performance management compare to the traditional annual performance process? How can a real-time process help an employee be more effective? What are some potential drawbacks?
2. Why do you think learning systems evolved in this way? Is there still a place for group classroom training? What types of learning might require classroom training, and what is better suited for online and YouTube-style learning?

In the talent review, the potential axis equates to potential for advancement within the organization:

low = not ready to advance

medium = close to ready

high = ready to advance

Potential *does not* equate to the value of an individual within the organization, nor does it state the quality of the individual. There are likely many strong performers (top contributors) in every company who prefer to stay in their current role for years and be specialists in their own processes. A specialist or expert may not want to manage people and thus would be rated as low on potential due to the lack of interest in advancement. Advancement may also mean relocation or lifestyle change that an employee is not willing to make at that time, so the employee would be rated low on potential for that reason. Potential can certainly change over time, given people's individual situations and life circumstances. Potential tends to be the more subjective ratings axis, as it involves some assumptions about what a team member could be capable of based on the limited information that is available now.



Exhibit 10.5 This is a flight simulator for a Boeing 737 aircraft. There is a drastic shortage of aircraft pilots, and training future pilots is a critical function with the challenge of limited actual flight training time. Consider how technology helps companies develop skilled workers both on and off the job. (Credit: Michael Coghlan/Flickr/ Attribution 2.0 Generic (CC BY 2.0))

A human resources team member should absolutely facilitate the talent review process and provide leaders with clear session objectives and specific instructions to maintain the integrity and confidentiality of this important talent process. The book *One Page Talent Management* by Effron and Ort (2010) describes the talent review meeting as a **talent review calibration process** that "ensures objective performance and potential evaluations, clear development plans, and an understanding of what high potential means in your company. A calibration meeting brings together a manager and her team members to discuss their talent. Each team member presents the performance and potential (PxP) grid that he prepared on direct reports and briefly describes how each person is rated. Other team members contribute their opinions based on their firsthand interactions with that person. The discussion concludes after they have discussed each person, agreed on their final placement, and identified key development steps for them" (Effron & Ort, 2010).

After everyone under discussion has been placed in one of the boxes on the nine-box template, the leadership team should discuss key development actions for each employee. (If there isn't time to discuss development activities for each employee, the group should start with the high-potential employees.) After the talent review calibration process is complete, human resources should keep a master list of the documented outcomes, as well as the development activities that were suggested for everyone. HR should follow up with each of the leaders to help with the planning and execution of the development activities as needed. The key outputs of the talent review process include:

- Identification of the "high-potential" employees in the organization
- Definition of development actions/action plans for each employee
- Insight into talent gaps and issues
- Input into the succession planning process

Succession planning generally follows shortly after (if not right after) a talent review because human resources and organizational leadership now have fresh information on the performance and potential of employees in the organization. Succession planning is a key process used to identify the depth of talent on the "bench" and the readiness of that talent to move into new roles. The process can be used to identify gaps or a lack of bench strength at any levels of the organization, but it is usually reserved for leadership roles and other key roles in the organization. In succession planning, human resources will generally sit down with the group leader

to discuss succession planning for his group and create a defined list of leadership and other critical roles that will be reviewed for potential successors.

Once the roles for succession planning analysis have been defined, both HR and the business leader will define the following elements for each role:

- Name of incumbent
- Attrition risk of incumbent
- Names of short-term successor candidates (ready in <1 year)
- Names of mid-term successor candidates (ready in 1–3 years)
- Names of long-term successor candidates (ready in 3+ years)
- Optional—9-box rating next to each successor candidate's name

The names of longer-term successor candidates are not as critical, but it is always helpful to understand the depth of the bench. With the information recently collected during the talent review process, HR and management will have a lot of quality information on the internal successor candidates. It is important to include external successor candidates in the succession planning analysis as well. If there are no candidates that are identified as short-, mid-, or long-term successor candidates for a role, then the word "EXTERNAL" should automatically be placed next to that role. Even if there are internal candidates named, any external successor candidates should still be captured in the analysis as appropriate.

Talent reviews and succession planning processes both generate excellent discussions and very insightful information on the state of talent in the organization. Human resources facilitates both processes, in very close partnership with the business, and ultimately keeps the output information from the sessions—i.e., the final succession plan, the final 9-box, and the follow-up development actions and activities as defined in the talent review session. With this information, human resources has a level of knowledge that will allow it to drive talent development and coach managers on the follow-up actions that they need to set in motion. Some examples of follow-up development activities that may be appropriate based on the outputs of the succession and 9-box events include **training**, **stretch assignments**, **individual assessments**, and **individual development plans**. Training and training plans identify the learning events that an individual would benefit from, either in a classroom or online format. Stretch assignments may be an appropriate development action for an employee who is being tested for or who wants to take on additional responsibility. Individual assessments, such as a **360 assessment** for managers, is a good developmental tool to provide feedback from managers, peers, direct reports, customers, or others who interact with the employee regularly. Finally, an individual development plan is an important document that employees should use to map out their personal development goals and actions and to track their own status and progress toward those goals.

Talent development is a collection of organization-wide processes that help to evaluate talent strengths and gaps within the organization. Although many of the processes are carried out in a group setting, the output of talent development needs to be very individualized via a collection of development tools and strategies to enhance performance. Human resources is a key resource and partner for these tools and strategies and thus plays a critical role in the future of talent for the organization.

Conclusion

Human resource management is a complex and often difficult field because of the nature of the key area of focus—**people**. In working with people, we begin to understand both the expressed and the hidden drives—intentions and emotions that add complexity and additional context to the processes and tasks that we set forth. We also begin to understand that an organization is a group of individuals and that human resources plays a critical role in ensuring that there are philosophies, structures, and processes in place to guide, teach, and motivate individual employees to perform at their best possible levels.

? Concept Check

1. What is the difference between the performance and potential categories used in the talent review?
2. What roles should an organization discuss as part of the succession planning process?

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10.9: Summary

Key Terms

360 assessment

An evaluation tool that collects feedback from manager, peers, direct reports, and customers.

9-box

A matrix tool used to evaluate an organization's talent pool based on performance and potential factors.

Competencies

A set of defined behaviors that an organization might utilize to define standards for success.

Employee life cycle

The various stages of engagement of an employee—attraction, recruitment, onboarding, development, retention, and separation.

Employer-employee relationship

The employment relationship; the legal link between employers and employees that exists when a person performs work or services under specific conditions in return for payment.

Human capital

The skills, knowledge, and experience of an individual or group and that value to an organization.

Human resource management

The management of people within organizations, focusing on the touchpoints of the employee life cycle.

Human resources compliance

The HR role to ensure adherence to laws and regulations that govern the employment relationship.

Merit matrix

A calculation table that provides a framework for merit increases based on performance levels.

Pay-for-performance model

The process and structure for tying individual performance levels to rewards levels

Performance management

The process by which an organization ensures that its overall goals are being met by evaluating the performance of individuals within that organization.

Society for Human Resource Management

The world's largest HR professional society, with more than 285,000 members in more than 165 countries. It is a leading provider of resources serving the needs of HR professionals.

Succession planning

The process of identifying and developing new leaders and high-potential employees to replace current employees at a future time.

Talent acquisition

The process of finding and acquiring skilled candidates for employment within a company; it generally refers to a long-term view of building talent pipelines rather than short-term recruitment.

Talent development

Integrated HR processes that are created to attract, develop, motivate, and retain employees.

Talent review calibration process

The meeting in which an organization's 9-box matrix is reviewed and discussed, with input and sharing from organizational leadership.

Total rewards strategy

As coined by World at Work, includes compensation, benefits, work-life effectiveness, recognition, performance management, and talent development.

Training, stretch assignments, individual assessments, individual development plans

These are tools that may be used in talent development:

Training—a forum for learning in person or online

Stretch assignments—challenge roles for high-potential employees

Individual assessments—personality and work style inventories of employees

Individual development plans—documents that highlight an individual employee's opportunities for growth and path of action

War for talent

Coined by McKinsey & Company in 1997, it refers to the increasing competition for recruiting and retaining talented employees.

Summary of Learning Outcomes

10.2 An Introduction to Human Resource Management

1. What has been the evolution of human resource management over the years, and what is the current value it provides to an organization?

Human resource management began in its first "wave" as a primarily compliance-type function, with the HR staff charged with enforcing compliance of employees and running the ongoing administrative processes. In the second wave, HR became focused on the design of HR practice areas, which could be built upon best-practice models. Wave 3 of HR brought with it the concept that HR should be a true partner to the business and should support the business strategy through its programs and services. Finally, in the fourth wave, HR is still a partner to the business, but it looks outside of the business to customers, investors, and communities to see how it can be competitive in terms of customer share, investor confidence, and community reputation.

Some key areas that HR supports within the employee life cycle process include human resources compliance, employee selection and hiring, performance management, compensation rewards, and talent development and succession planning.

10.3 Human Resource Management and Compliance

2. How does the human resources compliance role of HR provide value to a company?

Human resources help protect the company and its employees to ensure that they are adhering to the numerous regulations and laws that govern the employment relationship. The impact of noncompliance can be very costly and can be in the form of financial, legal, or reputational cost. Some of the key legislation that HR manages compliance around includes the Fair Labor Standards Act (FLSA), the Age Discrimination in Employment Act (ADEA), the Americans with Disabilities Act (ADA), and the Family and Medical Leave Act (FMLA), among others.

Some of the best practices for informing and holding employees accountable are to provide education and training to explain the regulations, to provide reference documentation for guidance with the regulations, and to schedule regular compliance audits to ensure that processes are being followed. Scheduling regular internal HR audits help the organization plan and feel comfortable with its level of preparedness and illustrates the value that a strong HR group can bring to the organization.

10.4 Performance Management

3. How do performance management practices impact company performance?

Performance management is a critical business process that the human resources group manages for the business. Performance management aligns the work of individual groups with the overall business objectives and enables the business to work toward its goals. Performance management should also help the company differentiate between different levels of employee performance through the management of feedback and a rewards structure.

Performance management also allows a company to identify its poor performers and provides a consistent process for tracking and managing poor performance in a manner that is fair and consistent with the law. There has been much discussion of best practices for a performance management process beyond a formal, annual process that often feels cumbersome to the business. However formal or informal, human resource management needs to ensure that the process helps to differentiate different levels of performance, manages the flow of feedback, and is consistent and fair for all employees.

10.5 Influencing Employee Performance and Motivation

4. How do companies use rewards strategies to influence employee performance and motivation?

Companies use rewards strategies to influence employee performance and motivation by differentiating between the various levels of performance. This strategy is called pay for performance, and it ties the employee's performance level to a consistent framework of rewards at each level. Research indicates that the primary reason that companies implement pay-for-performance is to be able to recognize and reward their high performers.

To implement a pay-for-performance structure, HR and the organization first need to define a compensation philosophy, then perform a review of the financial implications of such a system. Gaps in the current system must be identified, and compensation practices should be updated in accordance with the determined pay-for-performance design. Finally, communication and training are key to helping employees understand the context and philosophy, as well as the specific methodology.

10.6 Building and Organization for the Future

5. What is talent acquisition, and how can it create a competitive advantage for a company?

Human resource management plays the important role of managing the talent processes for an organization, and it is critical in the process of acquiring talent from the outside. Talent acquisition is the process of determining what roles are still needed in the organization, where to find people, and whom to hire. Hiring top talent is a key source of competitive advantage for a company, and not all organizations are good at doing it.

The impact of hiring is especially magnified when you talk about top leadership talent. The right leadership candidate can make all the difference in an organization's growth, performance, and trajectory over the years. HR should work with the business to assess the needs and specifics of the job, develop a pool of candidates, and then assess candidates for the right person to bring into the organization.

10.7 Talent Development and Succession Planning

6. What are the benefits of talent development and succession planning?

Talent development and succession planning processes provide organizations with the systems needed to assess and develop employees and to make the appropriate decisions on their internal movement and development. One important talent development process involves a talent review, in which leadership discusses the employees in its groups in terms of their performance and potential. Performance is based on current performance management evaluations of the current role. Potential is based on behavioral indications that would predict future high performance and promotability in an organization. There is then a discussion on the follow-up actions and development plans for the employees based on where they fall in the performance/potential matrix.

The benefit of this process is that the organization gains a better understanding of where the top talent is within the organization and can make plans to manage the development of that talent.

Another key process for managing talent is succession planning. In this process, leadership and HR meet to identify leadership roles and other critical roles in the organization, and then they discuss a potential pipeline of internal and external successor candidates at different levels of readiness for the role. The output of succession planning is that an organization gets to understand the depth of its talent bench and knows the gap areas where it may need to focus on developing or acquiring additional candidates.

? Chapter Review Questions

1. What are the four "waves" of the human resource management evolution?
2. What are some of the key regulations that human resources must manage compliance with?
3. What are some of the unintended consequences of a forced ranking system?
4. What are some of the performance management challenges that must be addressed, no matter what the system?
5. Why are many companies interested in moving to a pay-for-performance strategy?
6. What are the main process steps for implementing pay for performance?
7. What are some best practices for recruiting new leadership candidates?
8. Describe the steps of a talent review session.
9. What is the difference between performance and potential?
10. How can you tell if a candidate has potential?

Management Skills Application Exercises

1. How has human resource management's evolution over the years helped to make it a better partner to the business? In what way would you expect HRM to continue to evolve over the years?
2. Do you believe that a formal, annual performance management process is necessary to help an organization reach its goals? Why or why not? What are the minimum process requirements that must be met to successfully evaluate performance?
3. Is it possible for an organization to reward people fairly without implementing a pay-for-performance process? Why or why not? Do you see any pitfalls to a pay-for-performance process?
4. How does the "war for talent" impact talent acquisition processes? How can HR be more successful working with the business to navigate the competitive talent landscape?
5. What are the benefits of having talent review calibration processes? What is the downside of the process? Should an organization let employees know what their talent review "rating" is? Why or why not?

Managerial Decision Exercises

1. You have been hired as a new Finance VP, and you oversee a team of almost 30 people. Your HR manager has recently informed you that there have been several employee relations in your group in the recent past, and you are concerned about the level of knowledge that your management team has around dealing with these issues. What could you do to close the gap in knowledge and mitigate the risk of issues in your group?
2. Your company has decided to drop its formal, annual performance management process and move to a system based on ongoing feedback and communication with employees. You are concerned because you have always been careful to differentiate your employees by performance level, and you're worried that this will hurt your stronger employees. How can use ensure that your feedback and communication with employees provides performance management, despite the lack of a formal system?
3. Your company has recently implemented a pay-for-performance model for compensation. This worries you because you know that your employees will be even more upset with their performance ratings if they know that they are tied to compensation. What actions can you take to start to prepare for this change?
4. You are the director of an engineering organization and have been fighting the "war for talent" for a while. It seems that whenever you have a role vacancy, you let HR know, but it takes forever to find someone—and the candidate often turns down the job. What are some ways to better partner with HR to get ahead of the curve for the next time?
5. You are the VP of a line of business at an international manufacturing company. You and several of your long-time colleagues will be retiring over the next few years, and you need to start thinking about talent and succession planning. You are going into

a talent review discussion next week, and you're realizing that you have a dearth of potential within your organization. What are some actions you (and HR) can take now to ensure that your business unit isn't floundering when you leave for retirement?

Critical Thinking Case

Zappos, Holacracy, and Human Resource Management

In 2013, Zappos was performing well under the leadership of Tony Hsieh and was getting ready to take on a new challenge that would, among other things, push the boundaries of traditional human resource management. Although business was booming, Tony Hsieh was not a man who wanted to be in status quo mode for too long, so he set out to implement an organizational and cultural change called a holacracy. Zappos was the largest and best known of the 300 companies worldwide that had adopted holacracy—a new form of hierarchy that is a "flexible, self-governing structure, where there are no fixed jobs but simply temporary functional roles."

In a holacracy, the main unit is called the "circle," a distinct yet fluid team. Leadership became similarly fluid with the changing circles. Circles are designed to meet certain goals and are created and disbanded as project needs change. The intent is that people self-select to work on projects that they want to work on and that they have the skills for. Tony also removed all previous titles. The role of manager went away and was replaced with three roles: "lead links" would focus on guiding the work in the circles; "mentors" would work on employee growth and development; and "compensation appraisers" would work on determining employees' salaries. In 2015, he decided to further break down the divisions between many of the functions, changing them all to business-centric circles. There were changes to almost every human resource management structure that you can think of, and there were quite a few growing pains within the organization. Zappos began to look at employee pay, and Holacracy seemed to have a steep learning curve for many people, even though a "constitution" was created to provide guidance. Zappos was also facing 14% attrition, as some of the rapid and excessive changes were wearing on employees. Tony was a visionary, but for a lot of people, it was hard to catch up and see the same vision.

From a human resource management perspective, there could be some positive attributes of a holacracy if it were to succeed—such as building engagement and helping to build talent and skill sets. There were also a few risks that needed to be dealt with carefully. When you create an organization in which people don't have set teams or projects but instead determine what they want to work on, one of the big challenges is going to be determining the level and nature of their role, as well as the compensation for that role. If holacracy is compared to a consulting organization, in which consultants are brought into different projects with different requirements, it is critical to first determine the level of their consultant role (based on their education, skills, experience, etc.) so that they can properly move from project to project yet maintain a role of a certain level. That level is then tied to a specific pay scale, so the same consultant will receive the same salary no matter which project he is on. If that consultant is "on the bench" or not placed on a project (or self-placed, in the case of holacracy), then after a certain defined period, that consultant may be at risk of termination.

Holacracy is, in some ways, a challenging concept to think about, and self-management may not be able to work in all environments. A company that is implementing a holacracy may find that they are able to master the process of self-selection of work in the "circles." The "task" part of the equation may not be much of an issue once people figure out how to navigate the circles. However, the "people" part of the equation may need some work. The greatest challenge may lie in the structures and processes of human resource management that ultimately define the employer-employee relationship.

Critical Thinking Questions

1. What are some of the human resource management processes that might be enhanced by a holacracy? What processes will be challenged?
2. Do you think that a holacracy can be compared with a consulting company? How are they similar, and how are they different? Can you think of work areas or industries in which holacracy would be very difficult to implement?

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CHAPTER OVERVIEW

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11.1: Biblical Insight



Applying the Bible to Business

An important part of keeping workers motivated as a leader is first keeping yourself motivated. Joshua 1:9 says, "Have I not commanded you? Be strong and courageous. Do not be afraid; do not be discouraged, for the Lord your God will be with you wherever you go." This scripture commands each of us to be strong and courageous. We can do this because we can trust God is with us wherever we go. This means when things are good, God is with us. On the other hand, when things are challenging, God is also with us. No matter what, God is always with us. This truth can bring us strength and courage.

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11.2: Introduction: Motivation- Direction and Intensity

Learning Objectives

1. Define motivation and distinguish direction and intensity of motivation.

Ability refers to the knowledge, skills, and receptiveness to learning that a person brings to a task or job. Knowledge is what a person knows. Skill is their capacity to perform some particular activity (such as welding or accounting), including knowing what is expected of them (called accurate role perceptions). Receptiveness to learning is a function of how quickly a person acquires new knowledge. Some people have more ability than others, and high-ability people generally perform better than low-ability people (although we will see that this is not always the case) (Hunter & Hunter, 1984).

Accurate role perceptions refer to how well an individual understands their organizational role. This includes the goals (outcomes) the person is expected to achieve and the process by which the goals will be achieved. An employee who has accurate role perceptions knows both their expected outcomes *and* how to go about making those outcomes a reality. Incomplete or inaccurate role perceptions limit employees' capacity to meet expectations, regardless of their abilities and motivation.

The performance environment refers to those factors that impact employees' performance but are essentially out of their control. Many environmental factors influence performance. Some factors facilitate performance, while others constrain it. A word processor who has to work with a defective personal computer is certainly not going to perform at peak levels, regardless of ability or desire. Students who are working full time and carrying a full load of classes may not do as well on an exam as they would if they could cut back on their work hours, despite the fact that they have high ability and high motivation.

Motivation is the fourth major factor that determines whether a person will perform a task well. Motivation is a force within or outside of the body that energizes, directs, and sustains human behavior. Within the body, examples might be needs, personal values, and goals, while an incentive might be seen as a force outside of the body. The word stems from its Latin root *movere*, which means "to move." Generally speaking, motivation arises as a consequence of a person's desire to (1) fulfill unmet needs or (2) resolve conflicting thoughts that produce anxiety (an unpleasant experience). There are many ways in which we describe and categorize human needs, as we will see later in this chapter. Certain needs are fundamental to our existence, such as the need for food and water. When we are hungry, we are energized to satisfy that need by securing and ingesting food. Our other needs operate in a similar manner. When a need is unfulfilled, we are motivated to engage in behaviors that will satisfy it. The same is true for situations in which we experience conflicting thoughts. When we find ourselves in situations inconsistent with our beliefs, values, or expectations, we endeavor to eliminate the inconsistency. We either change the situation or we change our perception of it. In both cases, motivation arises out of our interaction with and perception of a particular situation. We perceive the situation as satisfying our needs or not. Motivation is thus a result of our interacting with situations to satisfy unmet needs or to resolve cognitive dissonance.



Figure 11.2.1: At the University of Michigan, Tom Brady was always a backup to high-potential quarterbacks and was a sixth-round draft pick after his college career. He commented, “A lot of people don’t believe in you. It’s obvious by now, six other quarterbacks taken and 198 other picks. And I always thought ‘you know what, once I get my shot, I’m gonna be ready. I’m gonna really take advantage of that.’” Rather than give up, he hired a sports psychologist to help him deal with constant frustrations. Brady would eventually become an elite quarterback and is now considered one of the greatest players ever. “I guess in a sense I’ve always had a chip on my shoulder. If you were the 199th pick, you were the 199th pick for a reason: because someone didn’t think you were good enough.” His passion and motivation helped him achieve that status. (Credit: Brook Ward/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Simply stated, work motivation is the amount of effort a person exerts to achieve a certain level of job performance. Some people try very hard to perform their jobs well. They work long hours, even if it interferes with their family life. Highly motivated people go the “extra mile.” High scorers on an exam make sure they know the examination material to the best of their ability, no matter how much midnight oil they have to burn. Other students who don’t do as well may just want to get by—football games and parties are a lot more fun, after all.

Motivation is of great interest to employers: *All* employers want their people to perform to the best of their abilities. They take great pains to screen applicants to make sure they have the necessary abilities and motivation to perform well. They endeavor to supply all the necessary resources and a good work environment. Yet motivation remains a difficult factor to manage. As a result, it receives the most attention from organizations and researchers alike, who ask the perennial question, “What motivates people to perform well?”

In this chapter, we look at current answers to this question. What work conditions foster motivation? How can theories of motivation help us understand the general principles that guide organizational behavior? Rather than analyze why a particular student studies hard for a test, we’ll look at the underlying principles of our general behavior in a variety of situations (including test-taking). We also discuss the major theories of motivation, along with their implications for management and organizational behavior. By the end of this chapter, you should have a better understanding of why some people are more motivated than others. Successful employees know what they want to achieve (direction), and they persist until they achieve their goals (intensity).

Our discussion thus far implies that motivation is a matter of effort. This is only partially true. Motivation has two major components: direction and intensity. Direction is *what* a person wants to achieve, what they intend to do. It implies a target that

motivated people try to “hit.” That target may be to do well on a test. Or it may be to perform better than anyone else in a work group. Intensity is *how hard* people try to achieve their targets. Intensity is what we think of as effort. It represents the energy we expend to accomplish something. If our efforts are getting nowhere, will we try different strategies to succeed?

It is important to distinguish the direction and intensity aspects of motivation. If *either* is lacking, performance will suffer. A person who knows what they want to accomplish (direction) but doesn’t exert much effort (intensity) will not succeed. Scoring 100 percent on an exam—your target—won’t happen unless you study! Conversely, people who don’t have a direction (what they want to accomplish) probably won’t succeed either.

Employees’ targets don’t always match with what their employers want. Absenteeism (some employees call this “calling in well”) is a major example (actiTIME, 2016). Pursuing your favorite hobby (your target) on a workday (your employer’s target) is a conflict in direction; below, we’ll examine some theories about why this conflict occurs.

There is another reason why employees’ targets are sometimes contrary to their employers’—sometimes employers do not ensure that employees understand what the employer wants. Employees can have great intensity but poor direction. It is management’s job to provide direction: Should we stress quality as well as quantity? Work independently or as a team? Meet deadlines at the expense of costs? Employees flounder without direction. Clarifying direction results in accurate *role perceptions*, the behaviors employees think they are expected to perform as members of an organization. Employees with accurate role perceptions understand their purpose in the organization and how the performance of their job duties contributes to organizational objectives. Some motivation theorists assume that employees know the correct direction for their jobs. Others do not. These differences are highlighted in the discussion of motivation theories below.

At this point, as we begin our discussion of the various motivation theories, it is reasonable to ask, “Why isn’t there just one motivation theory?” The answer is that the different theories are driven by different philosophies of motivation. Some theorists assume that humans are propelled more by needs and instincts than by reasoned actions. Their content motivation theories focus on *the content of what* motivates people. Other theorists focus on the process by which people are motivated. Process motivation theories address *how* people become motivated—that is, how people perceive and think about a situation. Content and process theories endeavor to predict motivation in a variety of situations. However, none of these theories can predict what will motivate an individual in a given situation 100 percent of the time. Given the complexity of human behavior, a “grand theory” of motivation will probably never be developed.

A second reasonable question at this point is, “Which theory is best?” If that question could be easily answered, this chapter would be quite short. The simple answer is that there is no “one best theory.” All have been supported by organizational behavior research. All have strengths and weaknesses. However, understanding something about each theory is a major step toward effective management practices.

? Concept Check

1. Explain the two drivers of motivation: direction and intensity.
2. What are the differences between content and process theories of motivation?
3. Will there ever be a grand theory of motivation?

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11.3: Content Theories of Motivation

Learning Objectives

1. Describe a content theory of motivation.

The theories presented in this section focus on the importance of human needs. A common thread through all of them is that people have a variety of needs. A need is a human condition that becomes “energized” when people feel deficient in some respect. When we are hungry, for example, our need for food has been energized. Two features of needs are key to understanding motivation. First, when a need has been energized, we are motivated to satisfy it. We strive to make the need disappear. Hedonism, one of the first motivation theories, assumes that people are motivated to satisfy mainly their own needs (seek pleasure, avoid pain). Long since displaced by more refined theories, hedonism clarifies the idea that needs provide direction for motivation. Second, once we have satisfied a need, it ceases to motivate us. When we’ve eaten to satiation, we are no longer motivated to eat. Other needs take over and we endeavor to satisfy them. A manifest need is whatever need is motivating us at a given time. Manifest needs dominate our other needs.

Instincts are our natural, fundamental needs, basic to our survival. Our needs for food and water are instinctive. Many needs are learned. We are not born with a high (or low) need for achievement—we learn to need success (or failure). The distinction between instinctive and learned needs sometimes blurs; for example, is our need to socialize with other people instinctive or learned?

Manifest Needs Theory

One major problem with the need approach to motivation is that we can make up a need for every human behavior. Do we “need” to talk or be silent? The possibilities are endless. In fact, around the 1920s, some 6,000 human needs had been identified by behavioral scientists!

Henry A. Murray recognized this problem and condensed the list into a few instinctive and learned needs (Murray, 1938). Instincts, which Murray called primary needs, include physiological needs for food, water, sex (procreation), urination, and so on. Learned needs, which Murray called secondary needs, are learned throughout one’s life and are basically psychological in nature. They include such needs as the need for achievement, for love, and for affiliation (see Table 11.1) (Murray, 1938).

Sample Items from Murray’s List of Needs

Sample Items from Murray's List of Needs	
Social Motive	Brief Definition
Abasement	To submit passively to external force. To accept injury, blame, criticism, punishment. To surrender.
Achievement	To accomplish something difficult. To master, manipulate, or organize physical objects, human beings, or ideas.
Affiliation	To draw near and enjoyably cooperate or reciprocate with an allied other (an other who resembles the subject or who likes the subject). To please and win the affection of a coveted object. To adhere and remain loyal to a friend.
Aggression	To overcome opposition forcefully. To fight. To revenge an injury. To attack, injure, or kill another. To oppose forcefully or punish another.
Autonomy	To get free, shake off restraint, break out of confinement.
Counteraction	To master or make up for a failure by restriving.
Defendance	To defend the self against assault, criticism, and blame. To conceal or justify a misdeed, failure, or humiliation. To vindicate the ego.
Deference	To admire and support a superior. To praise, honor, or eulogize.
Dominance	To control one's human environment. To influence or direct the behavior of others by suggestion, seduction, persuasion, or command.
Exhibition	To make an impression. To be seen and heard. To excite, amaze, fascinate, entertain, shock, intrigue, amuse, or entice others.
Harm avoidance	To avoid pain, physical injury, illness, and death. To escape from a dangerous situation. To take precautionary measures.
Infavoidance	To avoid humiliation. To quit embarrassing situations or to avoid conditions that may lead to belittlement or the scorn or indifference of others.
Nurturance	To give sympathy and gratify the needs of a helpless object: an infant or any object that is weak, disabled, tired, inexperienced, infirm, defeated, humiliated, lonely, dejected, sick, or mentally confused. To assist an object in danger. To feed, help, support, console, protect, comfort, nurse, heal.
Order	To put things in order. To achieve cleanliness, arrangement, organization, balance, neatness, tidiness, and precision.
Play	To act for "fun" without further purpose. To like to laugh and make jokes. To seek enjoyable relaxation from stress.
Rejection	To separate oneself from a negatively valued object. To exclude, abandon, expel, or remain indifferent to an inferior object. To snub or jilt an object.
Sentience	To seek and enjoy sensuous impressions.

Source: Adapted from C. S. Hall and G. Lindzey, *Theories of Personality.* Sample items from Murray's List of Needs. Copyright 1957 by John Wiley & Sons, New York.

Sample Items from Murray's List of Needs	
Social Motive	Brief Definition
Sex	To form and further an erotic relationship. To have sexual intercourse.
Succorance	To have one's needs gratified by the sympathetic aid of an allied object.
Understanding	To ask or answer general questions. To be interested in theory. To speculate, formulate, analyze, and generalize.
Source: Adapted from C. S. Hall and G. Lindzey, *Theories of Personality.* Sample items from Murray's List of Needs. Copyright 1957 by John Wiley & Sons, New York.	

Table 11.1

Murray's main premise was that people have a variety of needs, but only a few are expressed at a given time. When a person is behaving in a way that satisfies some need, Murray called the need manifest. Manifest needs theory assumes that human behavior is driven by the desire to satisfy needs. Lucretia's chattiness probably indicates her need for affiliation. This is a manifest need. But what if Lucretia also has a need to dominate others? Could we detect that need from her current behavior? If not, Murray calls this a latent need. A latent need cannot be inferred from a person's behavior at a given time, yet the person may still possess that need. The person may not have had the opportunity to express the need. Or she may not be in the proper environment to solicit behaviors to satisfy the need. Lucretia's need to dominate may not be motivating her current behavior because she is with friends instead of coworkers.

Manifest needs theory laid the groundwork for later theories, most notably McClelland's learned needs theory, that have greatly influenced the study of organizational behavior. The major implication for management is that some employee needs are latent. Managers often assume that employees do not have certain needs because the employees never try to satisfy them at work. Such needs may exist (latent needs); the work environment is simply not conducive to their manifestation (manifest needs). A reclusive accountant may not have been given the opportunity to demonstrate his need for achievement because he never received challenging assignments.

Learned Needs Theory

David C. McClelland and his associates (especially John W. Atkinson) built on the work of Murray for over 50 years. Murray studied many different needs, but very few in any detail. McClelland's research differs from Murray's in that McClelland studied three needs in-depth: the need for achievement, the need for affiliation, and the need for power (often abbreviated, in turn, as nAch, nAff, and nPow) (Atkinson & McClelland, 1948; McClelland et al., 1953; DeCharms, 1957; McClelland, 1961; McClelland, 1975).

McClelland believes that these three needs are learned, primarily in childhood. But he also believes that each need can be taught, especially nAch. McClelland's research is important because much of current thinking about organizational behavior is based on it.

Need for Achievement

The need for achievement (nAch) is how much people are motivated to excel at the tasks they are performing, especially tasks that are difficult. Of the three needs studied by McClelland, nAch has the greatest impact. The need for achievement varies in intensity across individuals. This makes nAch a personality trait as well as a statement about motivation. When nAch is being expressed, making it a manifest need, people try hard to succeed at whatever task they're doing. We say these people have a high achievement motive. A motive is a source of motivation; it is the need that a person is attempting to satisfy. Achievement needs become manifest when individuals experience certain types of situations.

To better understand the nAch motive, it's helpful to describe high-nAch people. You probably know a few of them. They're constantly trying to accomplish something. One of your authors has a father-in-law who would much rather spend his weekends digging holes (for various home projects) than going fishing. Why? Because when he digs a hole, he gets results. In contrast, he can exert a lot of effort and still not catch a fish. A lot of fishing, no fish, and no results equal failure!

McClelland describes three major characteristics of high-nAch people:

1. They feel personally responsible for completing whatever tasks they are assigned. They accept credit for success and blame for failure.
2. They like situations where the probability of success is moderate. High-nAch people are not motivated by tasks that are too easy or extremely difficult. Instead, they prefer situations where the outcome is uncertain, but in which they believe they can succeed if they exert enough effort. They avoid both simple and impossible situations.
3. They have very strong desires for feedback about how well they are doing. They actively seek out performance feedback. It doesn't matter whether the information implies success or failure. They want to know whether they have achieved or not. They constantly ask how they are doing, sometimes to the point of being a nuisance.

Why is nAch important to organizational behavior? The answer is that the success of many organizations is dependent on the nAch levels of their employees (McClelland, 1970). This is especially true for jobs that require self-motivation and managing others. Employees who continuously have to be told how to do their jobs require an overly large management team, and too many layers of management spell trouble in the current marketplace. Today's flexible, cost-conscious organizations have no room for top-heavy structures; their high-nAch employees perform their jobs well with minimal supervision.

Many organizations manage the achievement needs of their employees poorly. A common perception about people who perform unskilled jobs is that they are unmotivated and content doing what they are doing. But, if they have achievement needs, the job itself creates little motivation to perform. It is too easy. There are not enough workers who feel personal satisfaction for having the cleanest floors in a building. Designing jobs that are neither too challenging nor too boring is key to managing motivation. Job enrichment is one effective strategy; this frequently entails training and rotating employees through different jobs or adding new challenges.



Figure 11.3.1: The New York City Metropolitan Transit Authority undertook a new approach to how they perform critical inspection and maintenance of subway components that are necessary to providing reliable service. Rather than schedule these inspections during regular hours, they consulted with the maintenance workers, who suggested doing the inspections while sections of the subway were closed to trains for seven consecutive hours. This process was adopted and provided a safer and more efficient way to maintain and clean New York City's sprawling subway. With no trains running, MTA employees are able to inspect signals, replace rails and crossties, scrape track floors, clean stations, and paint areas that are not reachable during normal train operation. Workers also took the opportunity to clean lighting fixtures, change bulbs, and repair platform edges while performing high-intensity station cleaning. (Credit: Patrick Cashin/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Need for Affiliation

This need is the second of McClelland's learned needs. The need for affiliation (nAff) reflects a desire to establish and maintain warm and friendly relationships with other people. As with nAch, nAff varies in intensity across individuals. As you would expect, high-nAff people are very sociable. They're more likely to go bowling with friends after work than to go home and watch

television. Other people have lower affiliation needs. This doesn't mean that they avoid other people, or that they dislike others. They simply don't exert as much effort in this area as high-nAff people do.

The nAff has important implications for organizational behavior. High-nAff people like to be around other people, including other people at work. As a result, they perform better in jobs that require teamwork. Maintaining good relationships with their coworkers is important to them, so they go to great lengths to make the work group succeed because they fear rejection. So, high-nAff employees will be especially motivated to perform well if others depend on them. In contrast, if high-nAff people perform jobs in isolation from other people, they will be less motivated to perform well. Performing well on this job won't satisfy their need to be around other people.

Effective managers carefully assess the degree to which people have high or low nAff. Employees high in nAff should be placed in jobs that require or allow interactions with other employees. Jobs that are best performed alone are more appropriate for low-nAff employees, who are less likely to be frustrated.

Need for Power

The third of McClelland's learned needs, the need for power (nPow), is the need to control things, especially other people. It reflects a motivation to influence and be responsible for other people. An employee who is often talkative, gives orders, and argues a lot is motivated by the need for power over others.

Employees with high nPow can be beneficial to organizations. High-nPow people do have effective employee behaviors, but at times they're disruptive. A high-nPow person may try to convince others to do things that are detrimental to the organization. So, when is this need good, and when is it bad? Again, there are no easy answers. McClelland calls this the "two faces of power" (McClelland, 1970). A *personal power seeker* endeavors to control others mostly for the sake of dominating them. They want others to respond to their wishes whether or not it is good for the organization. They "build empires," and they protect them.

McClelland's other power seeker is the *social power seeker.* A high social power seeker satisfies needs for power by influencing others, like the personal power seeker. They differ in that they feel best when they have influenced a work group to achieve the group's goals and not some personal agenda. High social power seekers are concerned with goals that a work group has set for itself, and they are motivated to influence others to achieve the goal. This need is oriented toward fulfilling responsibilities to the employer, not to the self.

McClelland has argued that the high need for social power is the most important motivator for successful managers. Successful managers tend to be high in this type of nPow. High need for achievement can also be important, but it sometimes results in too much concern for personal success and not enough for the employer's success. The need for affiliation contributes to managerial success only in those situations where the maintenance of warm group relations is as important as getting others to work toward group goals.

The implication of McClelland's research is that organizations should try to place people with high needs for social power in managerial jobs. It is critical, however, that those managerial jobs allow the employee to satisfy the nPow through social power acquisition. Otherwise, a manager high in nPow may satisfy this need through acquisition of personal power, to the detriment of the organization.

ETHICS IN PRACTICE

Corporate Social Responsibility as a Motivating Force

Whatever their perspective, most people have a cause that they are passionate about. Bitcoin or net neutrality, sea levels or factory farming—social causes bind us to a larger context or assume a higher purpose for living better.

So, what motivates employees to give their all, work creatively, and be fully engaged? According to C.B. Bhattacharya, the Pietro Ferrero Chair in Sustainability at ESMT European School of Management and Technology in Berlin, Germany, employment engagement, or how positive employees feel about their current job, was at an all-time low globally in 2016: 13 percent (Knowledge at Wharton, 2016). But not all companies battle such low engagement rates. Unilever employees more than 170,000 workers globally and has an employ engagement level around 80 percent. How? Bhattacharya credits the success of Unilever, and other companies with similar engagement levels to an emphasis on a "sustainable business model." He outlines eight steps that

companies take to move sustainability and social responsibility from buzzwords to a company mission capable of motivating employees (Knowledge at Wharton, 2016).

According to Bhattacharya, a company needs to first define what it does and its long-term purpose, and then reconcile its sustainability goals with its economic goals. With its purpose and goals defined, it can then educate the workforce on sustainable methods to create knowledge and competence. Champions for the effort must be found throughout the organization, not just at the top. Competition should be encouraged among employees to find and embrace new goals. Sustainability should be visible both within and outside the company. Sustainability should be tied to a higher purpose and foster a sense of unity not simply among employees but even with competition at a societal level (Knowledge at Wharton, 2016).

Other companies have made social responsibility an everyday part of what they do. Launched in 2013, Bombas is the brainchild of Randy Goldberg and David Heath. Goldberg and Heath discovered that socks are the most requested clothing at homeless shelters. In response, the two entrepreneurs launched a line of socks that not only "reinvents" the sock (they claim) but also helps those in need. For each pair of socks purchased, the company donates a pair of socks to someone in need (Mulvey, 2017). According to the company website, "Bombas exists to help solve this problem, to support the homeless community, and to bring awareness to an under-publicized problem in the United States" (n.p.). Although the New York–based company is still growing. As of October 2017, Bombas had donated more than four million pairs of socks (Bombas, 2017).

In 2016, the Royal Bank of Scotland (RBS) launched a pilot program called Jump in which employees participated in challenges on ways to save water and electricity, as well as other sustainability issues. At the end of the pilot, 95 percent of the employees reported that they felt the program had contributed to employee engagement, team building, and environmental stability. Given the success of the program, in 2017 it was expanded to all RBS sites, and a smartphone app was added to help employees participate in the challenges (Barton, 2017).

Placing a *company* in a larger context and adding a second, higher purpose than the established company goals motivate employees to police the company itself to be a better global citizen. Companies benefit from reduced waste and increased employee engagement. Many companies are successfully motivating their staff, and working toward more sustainable practices while improving lives directly.

? Questions

1. Do you think social responsibility to promote sustainable practices? Why or why not?
2. Do you think most companies' CSR programs are essentially PR gimmicks? Why or why not? Give examples.

Maslow's Hierarchy of Needs

Any discussion of needs that motivate performance would be incomplete without considering Abraham Maslow (Maslow, 1943; Maslow, 1965). Thousands of managers in the 1960s were exposed to Maslow's theory through the popular writings of Douglas McGregor (McGregor, 1960; McGregor, 1967) Today, many of them still talk about employee motivation in terms of Maslow's theory.

Maslow was a psychologist who, based on his early research with primates (monkeys), observations of patients, and discussions with employees in organizations, theorized that human needs are arranged hierarchically. That is, before one type of need can manifest itself, other needs must be satisfied. For example, our need for water takes precedence over our need for social interaction (this is also called *prepotency*). We will always satisfy our need for water before we satisfy our social needs; water needs have prepotency over social needs. Maslow's theory differs from others that preceded it because of this hierarchical, prepotency concept.

Maslow went on to propose five basic types of human needs. This is in contrast to the thousands of needs that earlier researchers had identified, and also fewer than Murray identified in his theory. Maslow condensed human needs into a manageable set. Those five human needs, in the order of prepotency in which they direct human behavior, are:

1. ***Physiological and survival needs:*** These are the most basic of human needs and include the needs for water, food, sex, sleep, activity, stimulation, and oxygen.
2. ***Safety and security needs:*** These needs invoke behaviors that assure freedom from danger. This set of needs involves meeting threats to our existence, including extremes in environmental conditions (heat, dust, and so on), assault from other humans,

tyranny, and murder. In other words, satisfaction of these needs prevents fear and anxiety while adding stability and predictability to life.

3. ***Social needs:*** These needs reflect human desires to be the target of affection and love from others. They are especially satisfied by the presence of spouses, children, parents, friends, relatives, and others to whom we feel close. Feelings of loneliness and rejection are symptoms that this need has not been satisfied.
4. ***Ego and esteem:*** Esteem needs go beyond social needs. They reflect our need to be respected by others and to have esteem for ourselves. It is one thing to be liked by others. It is another thing to be respected for our talents and abilities. Ego and esteem needs have internal (self) and external (others) foci. An internal focus includes desires for achievement, strength, competence, confidence, and independence. An external focus includes desires to have prestige, recognition, appreciation, attention, and respect from others. Satisfaction of external esteem needs can lead to satisfaction of internal esteem needs.
5. ***Self-actualization:*** Self-actualization needs are the most difficult to describe. Unlike the other needs, the need for self-actualization is never completely satisfied. Self-actualization involves a desire for self-fulfillment, “to become more and more what one is, to become everything that one is capable of becoming" (Maslow, 1943). Because people are so different in their strengths and weaknesses, in capacities and limitations, the meaning of self-actualization varies greatly. Satisfying self-actualization needs means developing all of our special abilities to their fullest degree.



Figure 11.3.2: Seattle protester with sign (Credit: Adrenalin Tim /flickr/ Attribution 2.0 Generic (CC BY 2.0))

Figure 11.2.2: A protester at an anti-war demonstration in Seattle held up this sign. Where would you place that on Maslow’s hierarchy of needs?

Figure 11.2.3 illustrates Maslow’s proposed hierarchy of needs. According to his theory, people first direct their attention to satisfying their lower-order needs. Those are the needs at the bottom of the pyramid (physiological, safety, and security). Once those needs have been satisfied, the next level, social needs, become energized. Once satisfied, we focus on our ego and esteem needs. Maslow believed that most people become fixated at this level. That is, most people spend much of their lives developing self-esteem and the esteem of others. But, once those esteem needs are satisfied, Maslow predicted that self-actualization needs would dominate. There are no higher levels in the pyramid, because self-actualization needs can never be fully satisfied. They

represent a continuing process of self-development and self-improvement that, once satisfied on one dimension (painting), create motivation to continue on other dimensions (sculpting). One wonders if athletes like Tim Tebow are self-actualizing when they participate in multiple sporting endeavors at the professional level.

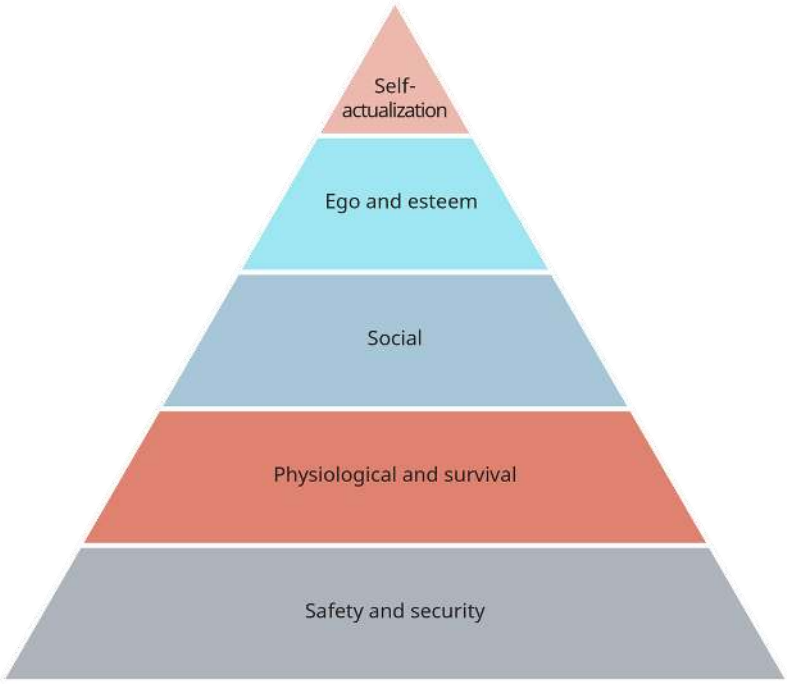


Figure 11.3.3: Maslow's Hierarchy of Needs (Source: Based on A. H. Maslow. 1943. A theory of human motivation. Psychological Bulletin 50:370–396)

An overriding principle in this theory is that a person's attention (direction) and energy (intensity) will focus on satisfying the lowest-level need that is not currently satisfied. Needs can also be satisfied at some point but become active (dissatisfied) again. Needs must be "maintained" (we must continue to eat occasionally). According to Maslow, when lower-level needs are reactivated, we once again concentrate on that need. That is, we lose interest in the higher-level needs when lower-order needs are energized.

The implications of Maslow's theory for organizational behavior are as much conceptual as they are practical. The theory posits that to maximize employee motivation, employers must try to guide workers to the upper parts of the hierarchy. That means that the employer should help employees satisfy lower-order needs such as safety, security, and social needs. Once satisfied, employees will be motivated to build esteem and respect through their work achievements. Figure 11.2.3 shows how Maslow's theory relates to factors that organizations can influence. For example, by providing adequate pay, safe working conditions, and cohesive workgroups, employers help employees satisfy their lower-order needs. Once satisfied, challenging jobs, additional responsibilities, and prestigious job titles can help employees satisfy higher-order esteem needs.

Maslow's theory is still popular among practicing managers. Organizational behavior researchers, however, are not as enamored with it because research results don't support Maslow's hierarchical notion. Apparently, people don't go through the five levels in a fixed fashion. On the other hand, there is some evidence that people satisfy the lower-order needs before they attempt to satisfy higher-order needs. Refinements of Maslow's theory in recent years reflect this more limited hierarchy (Alderfer, 1972). The self-assessment below will allow you to evaluate the strength of your five needs.

Alderfer's ERG Theory

Clayton Alderfer observed that very few attempts had been made to test Maslow's full theory. Further, the evidence accumulated provided only partial support. During the process of refining and extending Maslow's theory, Alderfer provided another need-based theory and a somewhat more useful perspective on motivation (Hall & Nougaim, 1968; Lawler, III & Suttle, 1972; Wahba & Bridwell, 1973). Alderfer's ERG theory compresses Maslow's five need categories into three: existence, relatedness, and growth

(Alderfer, 1972). In addition, ERG theory details the dynamics of an individual's movement between the need categories in a somewhat more detailed fashion than typically characterizes interpretations of Maslow's work.

As shown in Figure 11.2.4, the ERG model addresses the same needs as those identified in Maslow's work:



Figure 11.3.4: Alderfer's ERG Theory (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

- *Existence needs* include physiological and material safety needs. These needs are satisfied by material conditions and not through interpersonal relations or personal involvement in the work setting.
- *Relatedness needs* include all of Maslow's social needs, plus social safety and social esteem needs. These needs are satisfied through the exchange of thoughts and feelings with other people.
- *Growth needs* include self-esteem and self-actualization needs. These needs tend to be satisfied through one's full involvement in work and the work setting.

Figure 11.2.5 identifies a number of ways in which organizations can help their members satisfy these three needs.



Figure 11.3.5: Satisfying Existence, Relatedness, and Growth Needs (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Four components—satisfaction progression, frustration, frustration regression, and aspiration—are key to understanding Alderfer's ERG theory. The first of these, *satisfaction progression*, is in basic agreement with Maslow's process of moving through the needs. As we increasingly satisfy our existence needs, we direct energy toward relatedness needs. As these needs are satisfied, our growth needs become more active. The second component, *frustration*, occurs when we attempt but fail to satisfy a particular need. The resulting frustration may make satisfying the unmet need even more important to us—unless we repeatedly fail to satisfy that need. In this case, Alderfer's third component, *frustration regression*, can cause us to shift our attention to a previously satisfied, more concrete, and verifiable need. Lastly, the *aspiration* component of the ERG model notes that, by its very nature, growth is intrinsically satisfying. The more we grow, the more we want to grow. Therefore, the more we satisfy our growth need, the more important it becomes, and the more strongly we are motivated to satisfy it.



Figure 11.3.6: Jamie Dimon, CEO at JP Morgan Chase, is reported to make $27 million dollars per year, and as CEO has an interesting and intrinsically rewarding job. Starting tellers at a Chase Bank make a reported $36,100 per year and are in a position that has repeated tasks and may not be the most rewarding from a motivational point of view. How does this pay structure relate to self-determination theory (SDT)? (Credit: Stefan Chow/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Alderfer's model is potentially more useful than Maslow's in that it doesn't create false motivational categories. For example, it is difficult for researchers to ascertain when interaction with others satisfies our need for acceptance and when it satisfies our need for recognition. ERG also focuses attention explicitly on movement through the set of needs in both directions. Further, evidence in support of the three need categories and their order tends to be stronger than evidence for Maslow's five need categories and their relative order.

Herzberg's Motivator-Hygiene Theory

Clearly one of the most influential motivation theories throughout the 1950s and 1960s was Frederick Herzberg's motivator-hygiene theory. This theory is a further refinement of Maslow's theory. Herzberg argued that there are two sets of needs instead of the five sets theorized by Maslow. He called the first set "motivators" (or growth needs). Motivators, which relate to the jobs we perform and our ability to feel a sense of achievement as a result of performing them, are rooted in our need to experience growth and self-actualization. The second set of needs he termed "hygienes." Hygienes relate to the work environment and are based in the basic human need to "avoid pain." According to Herzberg, growth needs motivate us to perform well and, when these needs are met, lead to the experience of satisfaction. Hygiene needs, on the other hand, must be met to avoid dissatisfaction (but do not necessarily provide satisfaction or motivation) (Herzberg et al., 1959; Herzberg, 1966; Herzberg, 1968).

Hygiene factors are not directly related to the work itself (job content). Rather, hygienes refer to job context factors (pay, working conditions, supervision, and security). Herzberg also refers to these factors as "dissatisfiers" because they are frequently associated with dissatisfied employees. These factors are so frequently associated with dissatisfaction that Herzberg claims they never really provide satisfaction. When they're present in sufficient quantities, we avoid dissatisfaction, but they do not contribute to satisfaction. Furthermore, since meeting these needs does not provide satisfaction, Herzberg concludes that they do not motivate workers.

Motivator factors involve our long-term need to pursue psychological growth (much like Maslow's esteem and self-actualization needs). Motivators relate to *job content.* Job content is what we actually *do* when we perform our job duties. Herzberg considered job duties that lead to feelings of achievement and recognition to be motivators. He refers to these factors as "satisfiers" to reflect their ability to provide satisfying experiences. When these needs are met, we experience satisfaction. Because meeting these needs provides satisfaction, they motivate workers. More specifically, Herzberg believes these motivators lead to high performance (achievement), and the high performance itself leads to satisfaction.

The unique feature of Herzberg's theory is that job conditions that prevent dissatisfaction do not cause satisfaction. Satisfaction and dissatisfaction are on different "scales" in his view. Hygienes can cause dissatisfaction if they are not present in sufficient levels. Thus, an employee can be dissatisfied with low pay. But paying him more will not cause long-term satisfaction *unless* motivators are present. Good pay *by itself* will only make the employee neutral toward work; to attain satisfaction, employees need challenging job duties that result in a sense of achievement. Employees can be dissatisfied, neutral, or satisfied with their jobs,

depending on their levels of hygienes and motivators. Herzberg's theory even allows for the possibility that an employee can be satisfied and dissatisfied at the same time—the "I love my job but I hate the pay" situation!

Herzberg's theory has made lasting contributions to organizational research and managerial practice. Researchers have used it to identify the wide range of factors that influence worker reactions. Previously, most organizations attended primarily to hygiene factors. Because of Herzberg's work, organizations today realize the potential of motivators. Job enrichment programs are among the many direct results of his research.

Herzberg's work suggests a two-stage process for managing employee motivation and satisfaction. First, managers should address the hygiene factors. Intense forms of dissatisfaction distract employees from important work-related activities and tend to be demotivating (Dunham et al., 1983). Thus, managers should make sure that such basic needs as adequate pay, safe and clean working conditions, and opportunities for social interaction are met. They should then address the much more powerful motivator needs, in which workers experience recognition, responsibility, achievement, and growth. If motivator needs are ignored, neither long-term satisfaction nor high motivation is likely. When motivator needs are met, however, employees feel satisfied and are motivated to perform well.

Self-Determination Theory

One major implication of Herzberg's motivator-hygiene theory is the somewhat counterintuitive idea that managers should focus more on motivators than on hygienes. (After all, doesn't everyone want to be paid well? Organizations have held this out as a chief motivator for decades!) Why might concentrating on motivators give better results? To answer this question, we must examine *types* of motivation. Organizational behavior researchers often classify motivation in terms of what stimulates it. In the case of extrinsic motivation, we endeavor to acquire something that satisfies a lower-order need. Jobs that pay well and that are performed in safe, clean working conditions with adequate supervision and resources directly or indirectly satisfy these lower-order needs. These "outside the person" factors are *extrinsic rewards*.

Factors "inside" the person that cause people to perform tasks, intrinsic motivation, arise out of performing a task in and of itself, because it is interesting or "fun" to do. The task is enjoyable, so we continue to do it *even in the absence* of extrinsic rewards. That is, we are motivated by *intrinsic rewards*, rewards that we give ourselves. Intrinsic rewards satisfy higher-order needs such as relatedness and growth in ERG theory. When we sense that we are valuable contributors, are achieving something important, or are getting better at some skill, we like this feeling and strive to maintain it.

Self-determination theory (SDT) seeks to explain not only what causes motivation, but also how extrinsic rewards affect intrinsic motivation (Ryan & Deci, 2000). In SDT, extrinsic motivation refers to the performance of an activity to attain some valued outcome, while intrinsic motivation refers to performing an activity for the inherent satisfaction of the activity itself. SDT specifies when an activity will be intrinsically motivating and when it will not. Considerable numbers of studies have demonstrated that tasks are intrinsically motivating when they satisfy at least one of three higher-order needs: competence, autonomy, and relatedness. These precepts from SDT are entirely consistent with earlier discussions of theories by McClelland, Maslow, Alderfer, and Herzberg.

SDT takes the concepts of extrinsic rewards and intrinsic motivation further than the other need theories. SDT researchers have consistently found that as the level of extrinsic rewards increases, the amount of intrinsic motivation *decreases*. That is, SDT posits that extrinsic rewards not only do not provide intrinsic motivation, they diminish it. Think of this in terms of hobbies. Some people like to knit; others like to carve wood. They do it because it is intrinsically motivating; the hobby satisfies needs for competence, autonomy, and relatedness. But what happens if these hobbyists start getting paid well for their sweaters and carvings? Over time the hobby becomes less fun and is done to receive extrinsic rewards (money). Extrinsic motivation increases as intrinsic motivation decreases! When extrinsic rewards are present, people do not feel like what they do builds competence, is self-determined, or enhances relationships with others.

SDT theory has interesting implications for the management of organizational behavior. Some jobs are by their very nature uninteresting and unlikely to be made interesting. Automation has eliminated many such jobs, but they are still numerous. SDT would suggest that the primary way to motivate high performance for such jobs is to make performance contingent on extrinsic rewards. Relatively high pay is necessary to sustain performance on certain low-skill jobs. On the other hand, SDT would suggest that to enhance intrinsic motivation on jobs that are interesting, don't focus only on increasing extrinsic rewards (like large pay

bonuses). Instead, create even more opportunities for employees to satisfy their needs for competence, autonomy, and relatedness. That means giving them opportunities to learn new skills, to perform their jobs without interference, and to develop meaningful relationships with other customers and employees in other departments. Such actions enhance intrinsic rewards.

You may have noticed that content theories are somewhat quiet about what determines the intensity of motivation. For example, some people steal to satisfy their lower-order needs (they have high intensity). But most of us don't steal. Why is this? Process theories of motivation attempt to explain this aspect of motivation by focusing on the intensity of motivation as well as its direction. According to self-determination theory, skilled workers who are given a chance to hone their skills and the freedom to practice their craft will be intrinsically motivated.

? Concept Check

1. Understand the content theories of motivation.
2. Understand the contributions that Murray, McClelland, Maslow, Alderfer, and Herzberg made toward an understanding of human motivation.

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11.4: Process Theories of Motivation

Learning Objectives

1. Describe the process theories of motivation, and compare and contrast the main process theories of motivation: operant conditioning theory, equity theory, goal theory, and expectancy theory.

Process theories of motivation try to explain *why* behaviors are initiated. These theories focus on the mechanism by which we choose a target, and the effort that we exert to "hit" the target. There are four major process theories: (1) operant conditioning, (2) equity, (3) goal, and (4) expectancy.

Operant Conditioning Theory

Operant conditioning theory is the simplest of the motivation theories. It basically states that people will do those things for which they are rewarded and will avoid doing things for which they are punished. This premise is sometimes called the "law of effect." However, if this were the sum total of conditioning theory, we would not be discussing it here. Operant conditioning theory does offer greater insights than "reward what you want and punish what you don't," and knowledge of its principles can lead to effective management practices.

Operant conditioning focuses on the learning of voluntary behaviors (Skinner, 1953). The term operant conditioning indicates that learning results from our "operating on" the environment. After we "operate on the environment" (that is, behave in a certain fashion), consequences result. These consequences determine the likelihood of similar behavior in the future. Learning occurs because we do something to the environment. The environment then reacts to our action, and our subsequent behavior is influenced by this reaction.

The Basic Operant Model

According to operant conditioning theory, we learn to behave in a particular fashion because of consequences that resulted from our past behaviors (Skinner, 1953). The learning process involves three distinct steps (see Table 11.2). The first step involves a *stimulus* (S). The stimulus is any situation or event we perceive that we then respond to. A homework assignment is a stimulus. The second step involves a *response* (R), that is, any behavior or action we take in reaction to the stimulus. Staying up late to get your homework assignment in on time is a response. (We use the words response and behavior interchangeably here.) Finally, a *consequence* (C) is any event that follows our response and that makes the response more or less likely to occur in the future. If Colleen Sullivan receives praise from her superior for working hard, and if getting that praise is a pleasurable event, then it is likely that Colleen will work hard again in the future. If, on the other hand, the superior ignores or criticizes Colleen's response (working hard), this consequence is likely to make Colleen avoid working hard in the future. It is the experienced consequence (positive or negative) that influences whether a response will be repeated the next time the stimulus is presented.

Table 11.2 Process Theories of Motivation

Process Theories of Motivation	
General Operant Model: S → R → C	
Ways to Strengthen the S → R Link	
1. S → R → C+	(Positive Reinforcement)
2. S → R → C–	(Negative Reinforcement)
3. S → R → (no C–)	(Avoidance Learning)
Ways to Weaken the S → R Link	
1. S → R → (no C)	(Nonreinforcement)
2. S → R → C–	(Punishment)

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Reinforcement occurs when a consequence makes it more likely the response/behavior will be repeated in the future. In the previous example, praise from Colleen's superior is a reinforcer. Extinction occurs when a consequence makes it less likely the response/behavior will be repeated in the future. Criticism from Colleen's supervisor could cause her to stop working hard on any assignment.

There are three ways to make a response more likely to recur: positive reinforcement, negative reinforcement, and avoidance learning. In addition, there are two ways to make the response less likely to recur: nonreinforcement and punishment.

Making a Response More Likely

According to reinforcement theorists, managers can encourage employees to repeat a behavior if they provide a desirable consequence, or reward, after the behavior is performed. Positive reinforcement is a desirable consequence that satisfies an active need or that removes a barrier to need satisfaction. It can be as simple as a kind word or as major as a promotion. Companies that provide "dinners for two" as awards to those employees who go the extra mile are utilizing positive reinforcement. It is important to note that there are wide variations in what people consider to be a positive reinforcer. Praise from a supervisor may be a powerful reinforcer for some workers (such as high-nAch individuals) but not others.

Another technique for making a desired response more likely to be repeated is known as negative reinforcement. When a behavior causes something undesirable to be taken away, the behavior is more likely to be repeated in the future. Managers use negative reinforcement when they remove something unpleasant from an employee's work environment in the hope that this will encourage the desired behavior. Ted doesn't like being continually reminded by Philip to work faster (Ted thinks Philip is nagging him), so he works faster at stocking shelves to avoid being criticized. Philip's reminders are a negative reinforcement for Ted.

Approach using negative reinforcement with extreme caution. Negative reinforcement is often confused with punishment. Punishment, unlike reinforcement (negative or positive), is intended to make a particular behavior go away (not be repeated). Negative reinforcement, like positive reinforcement, is intended to make a behavior more likely to be repeated in the future. In the previous example, Philip's reminders simultaneously punished one behavior (slow stocking) and reinforced another (faster stocking). The difference is often a fine one, but it becomes clearer when we identify the behaviors we are trying to encourage (reinforcement) or discourage (punishment).



Figure 11.4.1: A worker stacks eggs on the shelves at a supermarket. Consider the interchange between Ted and Philip regarding speeding up the shelf restocking process. What could go wrong? (Credit: Alex Barth/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

A third method of making a response more likely to occur involves a process known as avoidance learning. Avoidance learning occurs when we learn to behave in a certain way to avoid encountering an undesired or unpleasant consequence. We may learn to wake up a minute or so before our alarm clock rings so we can turn it off and not hear the irritating buzzer. Some workers learn to get to work on time to avoid the harsh words or punitive actions of their supervisors. Many organizational discipline systems rely heavily on avoidance learning by using the threat of negative consequences to encourage desired behavior. When managers warn an employee not to be late again, when they threaten to fire a careless worker, or when they transfer someone to an undesirable position, they are relying on the power of avoidance learning.

Making a Response Less Likely

At times it is necessary to discourage a worker from repeating an undesirable behavior. The techniques managers use to make a behavior less likely to occur involve doing something that frustrates the individual's need satisfaction or that removes a currently satisfying circumstance. Punishment is an aversive consequence that follows a behavior and makes it less likely to reoccur.

Note that managers have another alternative, known as nonreinforcement, in which they provide no consequence at all following a worker's response. Nonreinforcement eventually reduces the likelihood of that response reoccurring, which means that managers who fail to reinforce a worker's desirable behavior are also likely to see that desirable behavior less often. If Philip never rewards Ted when he finishes stocking on time, for instance, Ted will probably stop trying to beat the clock. Nonreinforcement can also reduce the likelihood that employees will repeat undesirable behaviors, although it doesn't produce results as quickly as punishment does. Furthermore, if other reinforcing consequences are present, nonreinforcement is unlikely to be effective.

While punishment clearly works more quickly than does nonreinforcement, it has some potentially undesirable side effects. Although punishment effectively tells a person what *not* to do and stops the undesired behavior, it does not tell them what they *should* do. In addition, even when punishment works as intended, the worker being punished often develops negative feelings toward the person who does the punishing. Although sometimes it is very difficult for managers to avoid using punishment, it works best when reinforcement is also used. An experiment conducted by two researchers at the University of Kansas found that using nonmonetary reinforcement in addition to punitive disciplinary measures was an effective way to decrease absenteeism in an industrial setting (Kempen & Hall, 1977).

Schedules of Reinforcement

When a person is learning a new behavior, such as how to perform a new job, it is desirable to reinforce effective behaviors every time they are demonstrated (this is called *shaping*). But in organizations, it is not usually possible to reinforce desired behaviors every time they are performed, for obvious reasons. Moreover, research indicates that constantly reinforcing desired behaviors, termed *continuous reinforcement*, can be detrimental in the long run. Behaviors that are learned under continuous reinforcement are quickly extinguished (cease to be demonstrated). This is because people will expect a reward (the reinforcement) every time they display the behavior. When they don't receive it after just a few times, they quickly presume that the behavior will no longer be rewarded, and they quit doing it. Any employer can change employees' behavior by simply not paying them!

If behaviors cannot (and should not) be reinforced every time they are exhibited, how often should they be reinforced? This is a question about schedules of reinforcement, or the frequency at which effective employee behaviors should be reinforced. Much of the early research on operant conditioning focused on the best way to maintain the performance of desired behaviors. That is, it attempted to determine how frequently behaviors must be rewarded so that they are not extinguished. Research zeroed in on four types of reinforcement schedules:

Fixed Ratio: With this schedule, a fixed number of responses (let's say five) must be exhibited before any of the responses are reinforced. If the desired response is coming to work on time, then giving employees a $25 bonus for being punctual every day from Monday through Friday would be a fixed ratio of reinforcement.

Variable Ratio: A variable-ratio schedule reinforces behaviors, *on average*, a fixed number of times (again, let's say five). Sometimes the tenth behavior is reinforced, other times the first, but on average every fifth response is reinforced. People who perform under such variable-ratio schedules like this don't know *when* they will be rewarded, but they do know that they *will* be rewarded.

Fixed Interval: In a fixed-interval schedule, a certain amount of time must pass before a behavior is reinforced. With a one-hour fixed-interval schedule, for example, a supervisor visits an employee's workstation and reinforces the first desired behavior she sees. She returns one hour later and reinforces the next desirable behavior. This schedule doesn't imply that reinforcement will be received automatically after the passage of the time period. The time must pass *and* an appropriate response must be made.

Variable Interval: The variable interval differs from fixed-interval schedules in that the specified time interval passes *on average* before another appropriate response is reinforced. Sometimes the time period is shorter than the average; sometimes, it is longer.

Which type of reinforcement schedule is best? In general, continuous reinforcement is best while employees are learning their jobs or new duties. After that, variable-ratio reinforcement schedules are superior. In most situations, the fixed-interval schedule

produces the least effective results, with fixed ratio and variable interval falling in between the two extremes. But remember that effective behaviors must be reinforced with some type of schedule, or they may become extinguished.

Equity Theory

Suppose you have worked for a company for several years. Your performance has been excellent, you have received regular pay increases, and you get along with your boss and coworkers. One day you come to work to find that a new person has been hired to work at the same job that you do. You are pleased to have the extra help. Then, you find out the new person is making $100 more per week than you, despite your longer service and greater experience. How do you feel? If you're like most of us, you're quite unhappy. Your satisfaction has just evaporated. Nothing about your job has changed—you receive the same pay, do the same job, and work for the same supervisor. Yet, the addition of one new employee has transformed you from a happy to an unhappy employee. This feeling of unfairness is the basis for equity theory.

Equity theory states that motivation is affected by the outcomes we receive for our inputs compared with the outcomes and inputs of other people (Adams, 1965). This theory is concerned with the reactions people have to outcomes they receive as part of a "social exchange." According to equity theory, our reactions to the outcomes we receive from others (an employer) depend both on how we value those outcomes in an absolute sense *and* on the circumstances surrounding their receipt. Equity theory suggests that our reactions will be influenced by our perceptions of the "inputs" provided to receive these outcomes ("Did I get as much out of this as I put into it?"). Even more important is our comparison of our inputs with what we believe others received for their inputs ("Did I get as much for my inputs as my coworkers got for theirs?").

The Basic Equity Model

The fundamental premise of equity theory is that we continuously monitor the degree to which our work environment is "fair." In determining the degree of fairness, we consider two sets of factors: inputs and outcomes (see Figure 11.3.2). Inputs are any factors we contribute to the organization that we feel have value and are relevant to the organization. Note that the value attached to an input is based on *our* perception of its relevance and value. Whether or not anyone else agrees that the input is relevant or valuable is unimportant to us. Common inputs in organizations include time, effort, performance level, education level, skill levels, and bypassed opportunities. Because any factor we consider relevant is included in our evaluation of equity, it is not uncommon for factors to be included that the organization (or even the law) might argue are inappropriate (such as age, sex, ethnic background, or social status).

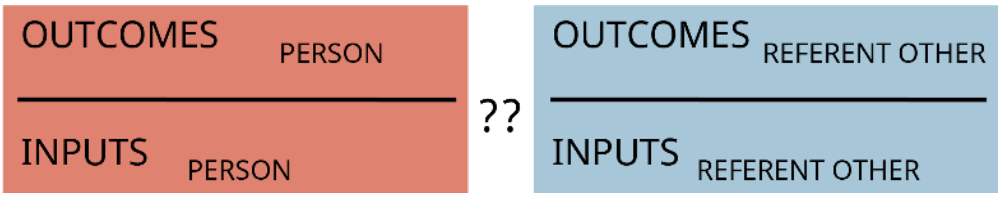


Figure 11.4.2: The Equity Theory Comparison (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Outcomes are anything we perceive as getting back from the organization in exchange for our inputs. Again, the value attached to an outcome is based on our perceptions and not necessarily on objective reality. Common outcomes from organizations include pay, working conditions, job status, feelings of achievement, and friendship opportunities. Both positive and negative outcomes influence our evaluation of equity. Stress, headaches, and fatigue are also potential outcomes. Because any outcome we consider relevant to the exchange influences our equity perception, we frequently include unintended factors (peer disapproval, family reactions).

Equity theory predicts that we will compare our outcomes to our inputs in the form of a ratio. On the basis of this ratio, we make an initial determination of whether or not the situation is equitable. If we perceive that the outcomes we receive are commensurate with our inputs, we are satisfied. If we believe that the outcomes are not commensurate with our inputs, we are dissatisfied. This dissatisfaction can lead to ineffective behaviors for the organization if they continue. The key feature of equity theory is that it predicts that we will compare our ratios to the ratios of other people. It is this comparison of the two ratios that has the strongest effect on our equity perceptions. These other people are called referent others because we "refer to" them when we judge equity.

Usually, referent others are people we work with who perform work of a similar nature. That is, referent others perform jobs that are similar in difficulty and complexity to the employee making the equity determination (see Figure 11.3.2).

Three conditions can result from this comparison. Our outcome-to-input ratio could equal the referent other's. This is a state of equity. A second result could be that our ratio is greater than the referent other's. This is a state of overreward inequity. The third result could be that we perceive our ratio to be less than that of the referent other. This is a state of underreward inequity.

Equity theory has a lot to say about basic human tendencies. The motivation to compare our situation to that of others is strong. For example, what is the first thing you do when you get an exam back in class? Probably look at your score and make an initial judgment as to its fairness. For a lot of people, the very next thing they do is look at the scores received by fellow students who sit close to them. A 75% score doesn't look so bad if everyone else scored lower! This is equity theory in action.

Most workers in the United States are at least partially dissatisfied with their pay (Adams, 1965). Equity theory helps explain this. Two human tendencies create feelings of inequity that are not based in reality. One is that we tend to overrate our performance levels. For example, one study conducted by your authors asked more than 600 employees to anonymously rate their performance on a 7-point scale (1 = poor, 7 = excellent). The average was 6.2, meaning the *average* employee rated his or her performance as *very good to excellent.* This implies that the average employee also expects excellent pay increases, a policy most employers cannot afford if they are to remain competitive. Another study found that the average employee (one whose performance is better than half of the other employees and worse than the other half) rated her performance at the 80th percentile (better than 80% of the other employees, worse than 20 percent) (Kane & Lawler, III, 1979). Again, it would be impossible for most organizations to reward the average employee at the 80th percentile. In other words, most employees inaccurately overrate the inputs they provide to an organization. This leads to perceptions of inequity that are not justified.

The second human tendency that leads to unwarranted perceptions of inequity is our tendency to *overrate* the outcomes of others (Lawler, III, 1972). Many employers keep the pay levels of employees a "secret." Still other employers actually forbid employees to talk about their pay. This means that many employees don't know for certain how much their colleagues are paid. And, because most of us overestimate the pay of others, we tend to think that they're paid more than they actually are, and the unjustified perceptions of inequity are perpetuated.

The bottom line for employers is that they must be sensitive to employees' need for equity. Employers must do everything they can to prevent feelings of inequity because employees engage in effective behaviors when they perceive equity and ineffective behaviors when they perceive inequity.

Perceived Overreward Inequity

When we perceive that overreward inequity exists (that is, we unfairly make more than others), it is rare that we are so dissatisfied, guilty, or sufficiently motivated that we make changes to produce a state of perceived equity (or we leave the situation). Indeed, feelings of overreward, when they occur, are quite transient. Very few of us go to our employers and complain that we're overpaid! Most people are less sensitive to overreward inequities than they are to underreward inequities (Andrews, 1967; Adams, 1963a; Adams, 1963b). However infrequently they are used for overreward, the same types of actions are available for dealing with both types of inequity.

Perceived Underreward Inequity

When we perceive that underreward inequity exists (that is, others unfairly make more than we do), we will likely be dissatisfied, angered, and motivated to change the situation (or escape the situation) to produce a state of perceived equity. As we will discuss shortly, people can take many actions to deal with underreward inequity.

Reducing Underreward Inequity

A simple situation helps explain the consequences of inequity. Two automobile workers in Detroit, John and Mary, fasten lug nuts to wheels on cars as they come down the assembly line, John on the left side and Mary on the right. Their inputs are equal (both fasten the same number of lug nuts at the same pace), but John makes $500 per week, and Mary makes $600. Their equity ratios are thus:

Equity ratios

$500	$600
John:	<Mary:
10 lug nuts/car	10 lug nuts/car

As you can see, their ratios are not equal; that is, Mary receives greater outcome for equal input. Who is experiencing inequity? According to equity theory, both John *and* Mary—underreward inequity for John, and overreward inequity for Mary. Mary's inequity won't last long (in real organizations), but in our hypothetical example, what might John do to resolve this?

Adams identified a number of things people do to reduce the tension produced by a perceived state of inequity. They change their own outcomes or inputs, *or* they change those of the referent other. They distort their own perceptions of the outcomes or inputs of either party by using a different referent other, or they leave the situation in which the inequity is occurring.

1. Alter inputs of the person. The perceived state of equity can be altered by changing our own inputs, that is, by decreasing the quantity or quality of our performance. John can effect his own mini slowdown and install only nine lug nuts on each car as it comes down the production line. This, of course, might cause him to lose his job, so he probably won't choose this alternative.
2. Alter outcomes of the person. We could attempt to increase outcomes to achieve a state of equity, such as asking for a raise, a nicer office, a promotion, or other positively valued outcomes. So, John will likely ask for a raise. Unfortunately, many people enhance their outcomes by stealing from their employers.
3. Alter inputs of the referent other. When underrewarded, we may try to achieve a state of perceived equity by encouraging the referent other to increase their inputs. We may demand, for example, that the referent other "start pulling their weight," or perhaps help the referent other to become a better performer. It doesn't matter that the referent other is already pulling their weight—remember, this is all about perception. In our example, John could ask Mary to put on two of his ten lug nuts as each car comes down the assembly line. This would not likely happen, however, so John would be motivated to try another alternative to reduce his inequity.
4. Alter outcomes of the referent other. We can "correct" a state of underreward by directly or indirectly reducing the value of the other's outcomes. In our example, John could try to get Mary's pay lowered to reduce his inequity. This, too, would probably not occur in the situation described.
5. Distort perceptions of inputs or outcomes. It *is* possible to reduce a perceived state of inequity without changing input or outcome. We simply distort our own perceptions of our inputs or outcomes, *or* we distort our perception of those of the referent other. Thus, John may tell himself that "Mary does better work than I thought" or "she enjoys her work much less than I do" or "she gets paid less than I realized."
6. Choose a different referent other. We can also deal with both over- and underreward inequities by changing the referent other ("my situation is really more like Ahmed's"). This is the simplest and most powerful way to deal with perceived inequity: it requires neither actual nor perceptual changes in anybody's input or outcome, and it causes us to look around and assess our situation more carefully. For example, John might choose Bill, who installs dashboards but makes less money than John, as a referent other.
7. Leave the situation. A final technique for dealing with a perceived state of inequity involves removing ourselves from the situation. We can choose to accomplish this through absenteeism, transfer, or termination. This approach is usually not selected unless the perceived inequity is quite high or other attempts at achieving equity are not readily available. Most automobile workers are paid quite well for their work. John is unlikely to find an equivalent job, so it is also unlikely that he will choose this option.

Implications of Equity Theory

Equity theory is widely used, and its implications are clear. In the vast majority of cases, employees experience (or perceive) underreward inequity rather than overreward. As discussed above, few of the behaviors that result from underreward inequity are good for employers. Thus, employers try to prevent unnecessary perceptions of inequity. They do this in a number of ways. They try to be as fair as possible in allocating pay. That is, they measure performance levels as accurately as possible and then give the highest performers the highest pay increases. Second, most employers are no longer secretive about their pay schedules. People are naturally curious about how much they are paid relative to others in the organization. This doesn't mean that employers don't practice discretion—they usually don't reveal specific employees' exact pay. But they do tell employees the minimum and

maximum pay levels for their jobs and the pay scales for the jobs of others in the organization. Such practices give employees a factual basis for judging equity.

Supervisors play a key role in creating perceptions of equity. “Playing favorites” ensures perceptions of inequity. Employees want to be rewarded on their merits, not the whims of their supervisors. In addition, supervisors must recognize differences in employees in their reactions to inequity. Some employees are highly sensitive to inequity, and a supervisor needs to be especially cautious around them (Huseman et al., 1987; Miles et al., 1989). Everyone is sensitive to reward allocation (Bies, 1987; Greenberg, 1987). But “equity sensitives” are even more sensitive. A major principle for supervisors, then, is simply to implement fairness. Never base punishment or reward on whether or not you like an employee. Reward behaviors that contribute to the organization, and discipline those that do not. Make sure employees understand what is expected of them and praise them when they do it. These practices make everyone happier and your job easier.

Goal Theory

No theory is perfect. If it was, it wouldn’t be a theory. It would be a set of facts. Theories are sets of propositions that are right more often than they are wrong, but they are not infallible. However, the basic propositions of goal theory* come close to being infallible. Indeed, it is one of the strongest theories in organizational behavior.

The Basic Goal-Setting Model

Goal theory states that people will perform better if they have difficult, specific, accepted performance goals or objectives (Locke, 1978; Taylor, 1911; Lewin, 1938; Lewin, Dembo et al., 1944; Drucker, 1954; McGregor, 1957; Locke, 1968; Locke et al., 1981; Latham & Locke, 1984; Pinder, 1984).

The first and most basic premise of goal theory is that people will attempt to achieve those goals that they *intend* to achieve. Thus, if we intend to do something (such as getting an A on an exam), we will exert effort to accomplish it. Without such goals, our effort at the task (studying) required to achieve the goal is less. Students whose goals are to get As study harder than students who don’t have this goal—we all know this. This doesn’t mean that people without goals are unmotivated. It simply means that people with goals are more motivated. The intensity of their motivation is greater, and they are more directed.

The second basic premise is that *difficult* goals result in better performance than easy goals. This does not mean that difficult goals are always achieved, but our performance will usually be better when we intend to achieve harder goals. Your goal of an A in Classical Mechanics at Cal Tech may not get you your A, but it may earn you a B+, which you wouldn’t have gotten otherwise. Difficult goals cause us to exert more effort, and this almost always results in better performance.

Another premise of goal theory is that *specific* goals are better than vague goals. We often wonder what we must do to be successful. Have you ever asked a professor “What do I need to do to get an A in this course?” If she responded, “Do well on the exams,” you weren’t much better off for having asked. This is a vague response. Goal theory says that we perform better when we have specific goals. Had your professor told you the key thrust of the course, to turn in *all* the problem sets, to pay close attention to the essay questions on exams, and to aim for scores in the 90s, you would have something concrete on which to build a strategy.

A key premise of goal theory is that people must *accept* the goal. Usually, we set our own goals. But sometimes others set goals for us. Your professor telling you your goal is to “score at least 90% on your exams” doesn’t mean that you’ll accept this goal. Maybe you don’t feel you can achieve scores in the 90s. Or, you’ve heard that 90 isn’t good enough for an A in this class. This happens in work organizations quite often. Supervisors give orders that something must be done by a certain time. The employees may fully understand what is wanted, yet if they feel the order is unreasonable or impossible, they may not exert much effort to accomplish it. Thus, it is important for people to accept the goal. They must feel that it is also their goal. If they do not, goal theory predicts that they won’t try as hard to achieve it.

Goal theory also states that people must *commit* to a goal in addition to accepting it. Goal commitment is the degree to which we dedicate ourselves to achieving a goal. Goal commitment is about setting priorities. We can accept many goals (go to all classes, stay awake during classes, take lecture notes), but we often end up doing only some of them. In other words, some goals are more important than others. And we exert more effort for certain goals. This also happens frequently at work. A software analyst’s major goal may be to write a new program. Her minor goal may be to maintain previously written programs. It is minor because maintaining old programs is boring, while writing new ones is fun. Goal theory predicts that her commitment to the major goal will be greater, and thus so will her intensity.

Allowing people to participate in the goal-setting process often results in higher goal commitment. This has to do with ownership. And when people participate in the process, they tend to incorporate factors they think will make the goal more interesting, challenging, and attainable. Thus, it is advisable to allow people some input into the goal-setting process. Imposing goals on them from the outside usually results in less commitment (and acceptance).

The basic goal-setting model is shown in Figure 11.3.3. The process starts with our values. Values are our beliefs about how the world should be or act, and often include words such as “should” or “ought.” We compare our present conditions against these values. For example, Randi holds the value that everyone should be a hard worker. After measuring her current work against this value, Randi concludes that she doesn’t measure up to her own value. Following this, her goal-setting process begins. Randi will set a goal that affirms her status as a hard worker. Figure 11.3.3 lists the four types of goals. Some goals are self-set. (Randi decides to word process at least 70 pages per day.) Participative goals are jointly set. (Randi goes to her supervisor, and together they set some appropriate goals for her.) In still other cases, goals are assigned. (Her boss tells her that she must word process at least 60 pages per day.) The fourth type of goal, which can be self-set, jointly determined, or assigned, is a “do your best” goal. But note this goal is vague, so it usually doesn’t result in the best performance.



Figure 11.4.3: The Goal-Setting Process (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Depending on the characteristics of Randi’s goals, she may or may not exert a lot of effort. For maximum effort to result, her goals should be difficult, specific, accepted, and committed to. Then, if she has sufficient ability and lack of constraints, maximum performance should occur. Examples of constraints could be that her old computer frequently breaks down or her supervisor constantly interferes.

The consequence of endeavoring to reach her goal will be that Randi will be satisfied with herself. Her behavior is consistent with her values. She’ll be even more satisfied if her supervisor praises her performance and gives her a pay increase!

In Randi’s case, her goal achievement resulted in several benefits. However, this doesn’t always happen. If goals are not achieved, people may be unhappy with themselves, and their employer may be dissatisfied as well. Such an experience can make a person reluctant to accept goals in the future. Thus, setting difficult yet attainable goals cannot be stressed enough.

Goal theory can be a tremendous motivational tool. In fact, many organizations practice effective management by using a technique called “management by objectives” (MBO). MBO is based on goal theory and is quite effective when implemented consistently with goal theory’s basic premises.

Despite its many strengths, several cautions about goal theory are appropriate. Locke has identified most of them (Locke, 1979). First, setting goals in one area can lead people to neglect other areas. (Randi may word process 70 pages per day, but neglect her proofreading responsibilities.) It is important that goals be set for most major duties. Second, goal setting sometimes has unintended consequences. For example, employees set easy goals so that they look good when they achieve them. Or it causes unhealthy competition between employees. Or an employee sabotages the work of others so that only she has goal achievement.

Some managers use goal-setting in unethical ways. They may manipulate employees by setting impossible goals. This enables them to criticize employees even when the employees are doing superior work and, of course, causes much stress. Goal setting should never be abused. Perhaps the key caution about goal setting is that it often results in too much focus on quantified measures of performance. Qualitative aspects of a job or task may be neglected because they aren’t easily measured. Managers must keep

employees focused on the qualitative aspects of their jobs as well as the quantitative ones. Finally, setting individual goals in a teamwork environment can be counterproductive (Mitchell & Silver, 1990). Where possible, it is preferable to have group goals in situations where employees depend on one another in the performance of their jobs.

The cautions noted here are not intended to deter you from using goal theory. We note them so that you can avoid the pitfalls. Remember, employees have a right to reasonable performance expectations and the rewards that result from performance, and organizations have a right to expect high performance levels from employees. Goal theory should be used to optimize the employment relationship. Goal theory holds that people will exert effort to accomplish goals if those goals are difficult to achieve, accepted by the individual, and specific in nature.

Expectancy Theory

Expectancy theory posits that we will exert much effort to perform at high levels so that we can obtain valued outcomes. It is the motivation theory that many organizational behavior researchers find most intriguing, in no small part because it is currently also the most comprehensive theory. Expectancy theory ties together many of the concepts and hypotheses from the theories discussed earlier in this chapter. In addition, it points to factors that other theories miss. Expectancy theory has much to offer the student of management and organizational behavior.

Expectancy theory is sufficiently general that it is useful in a wide variety of situations. Choices between job offers, between working hard or not so hard, between going to work or not—virtually any set of possibilities can be addressed by expectancy theory. Basically, the theory focuses on two related issues:

1. When faced with two or more alternatives, which will we select?
2. Once an alternative is chosen, how motivated will we be to pursue that choice?

Expectancy theory thus focuses on the two major aspects of motivation, *direction* (which alternative?) and *intensity* (how much effort to implement the alternative?). The attractiveness of an alternative is determined by our "expectations" of what is likely to happen if we choose it. The more we believe that the alternative chosen will lead to positively valued outcomes, the greater its attractiveness to us.

Expectancy theory states that, when faced with two or more alternatives, we will select the most attractive one. And, the greater the attractiveness of the chosen alternative, the more motivated we will be to pursue it. Our natural hedonism, discussed earlier in this chapter, plays a role in this process. We are motivated to maximize desirable outcomes (a pay raise) and minimize undesirable ones (discipline). Expectancy theory goes on to state that we are also logical in our decisions about alternatives. It considers people to be *rational*. People evaluate alternatives in terms of their "pros and cons" and then choose the one with the most "pros" and fewest "cons."

The Basic Expectancy Model

The three major components of expectancy theory reflect its assumptions of hedonism and rationality: effort-performance expectancy, performance-outcome expectancy, and valences.

The effort-performance expectancy, abbreviated E1, is the perceived probability that effort will lead to performance (or E ➡ P). Performance here means anything from doing well on an exam to assembling 100 toasters a day at work. Sometimes people believe that no matter how much effort they exert, they won't perform at a high level. They have weak E1s. Other people have strong E1s and believe the opposite—that is, that they can perform at a high level if they exert high effort. You all know students with different E1s—those who believe that if they study hard, they'll do well, and those who believe that, no matter how much they study, they'll do poorly. People develop these perceptions from prior experiences with the task at hand and from self-perceptions of their abilities. The core of the E1 concept is that people don't always perceive a direct relationship between effort level and performance level.

The performance-outcome expectancy, E2, is the perceived relationship between performance and outcomes (or P ➡ O).[1] Many things in life happen as a function of how well we perform various tasks. E2 addresses the question, "What will happen if I perform well?" Let's say you get an A in your Classical Mechanics course at Cal Tech. You'll be elated, your classmates may envy you, and you are now assured of that plum job at NASA. But let's say you got a D. Whoops, that was the last straw for the dean. Now you've flunked out, and you're reduced to going home to live with your parents (perish the thought!). Likewise, E2 perceptions

develop in organizations, although hopefully not as drastically as your beleaguered career at Cal Tech. People with strong E2s believe that if they perform their jobs well, they'll receive desirable outcomes—good pay increases, praise from their supervisor, and a feeling that they're really contributing. In the same situation, people with weak E2s will have the opposite perceptions—that high performance levels don't result in desirable outcomes and that it doesn't really matter how well they perform their jobs as long as they don't get fired.

Valences are the easiest of the expectancy theory concepts to describe. Valences are simply the degree to which we perceive an outcome as desirable, neutral, or undesirable. Highly desirable outcomes (a 25% pay increase) are positively valent. Undesirable outcomes (being disciplined) are negatively valent. Outcomes that we're indifferent to (where you must park your car) have neutral valences. Positively and negatively valent outcomes abound in the workplace—pay increases and freezes, praise and criticism, recognition and rejection, promotions, and demotions. And as you would expect, people differ dramatically in how they value these outcomes. Our needs, values, goals, and life situations affect what valence we give an outcome. Equity is another consideration we use in assigning valences. We may consider a 10% pay increase desirable until we find out that it was the lowest raise given in our workgroup.

Figure 11.3.4 summarizes the three core concepts of expectancy theory. The theory states that our perceptions about our surroundings are essentially predictions about "what leads to what." We perceive that certain effort levels result in certain performance levels. We perceive that certain performance levels result in certain outcomes. Outcomes can be extrinsic, in that others (our supervisor) determine whether we receive them, or intrinsic, in that we determine if they are received (our sense of achievement). Each outcome has an associated valence (outcome A's valence is VaVa). Expectancy theory predicts that we will exert effort that results in the maximum amount of positive-valence outcomes.[2] If our E1 or E2 is weak, or if the outcomes are not sufficiently desirable, our motivation to exert effort will be low. Stated differently, an individual will be motivated to try to achieve the level of performance that results in the most rewards.

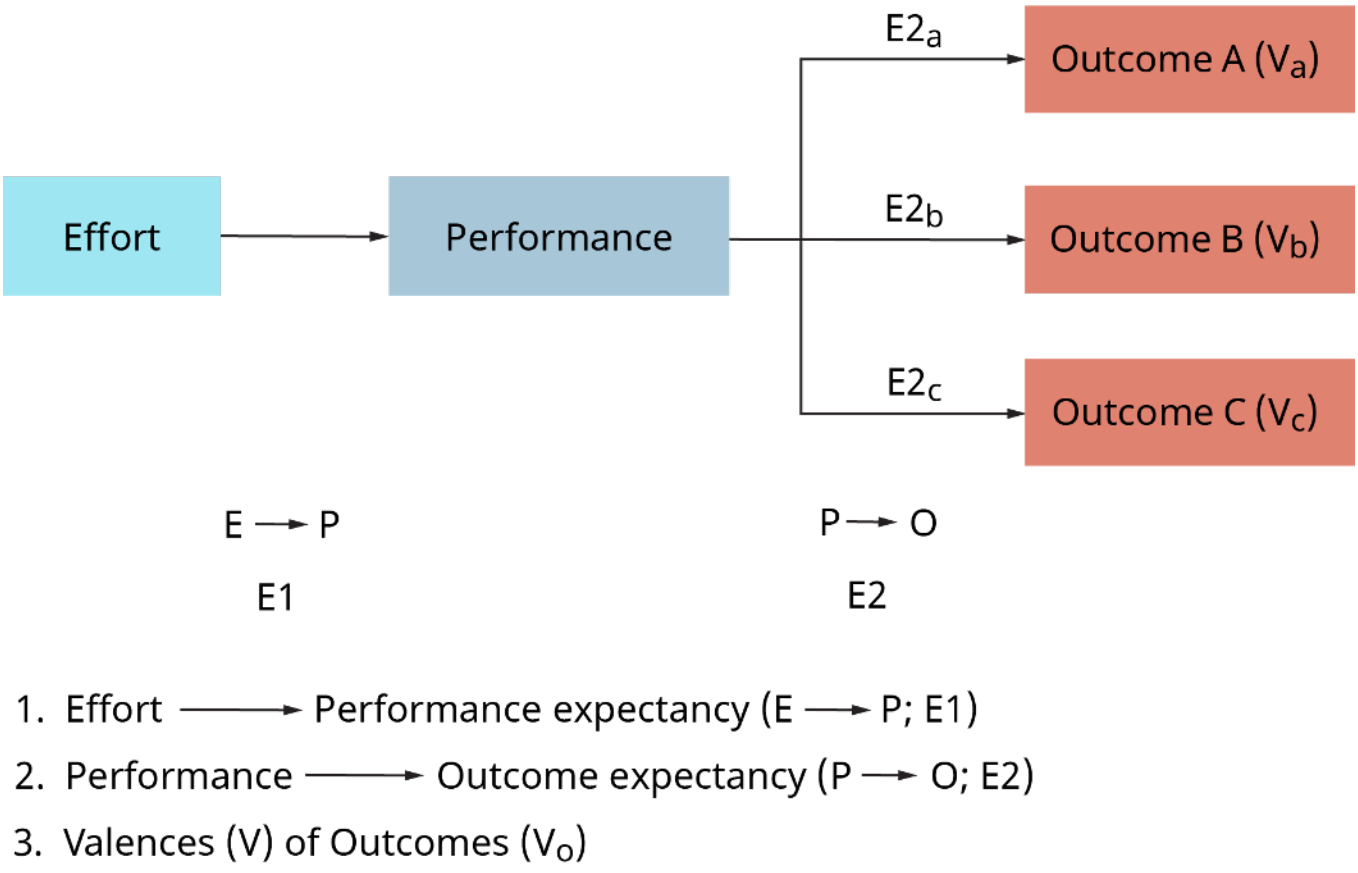


Figure 11.4.4: The Expectancy Theory of Motivation (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

V_o is the valence of the outcome. The effort level with the greatest force associated with it will be chosen by the individual.

Implications of Expectancy Theory

Expectancy theory has major implications for the workplace. Basically, expectancy theory predicts that employees will be motivated to perform well on their jobs under two conditions. The first is when employees believe that a reasonable amount of effort will result in good performance. The second is when good performance is associated with positive outcomes and low performance is associated with negative outcomes. If neither of these conditions exists in the perceptions of employees, their motivation to perform will be low.

Why might an employee perceive that positive outcomes are not associated with high performance? Or that negative outcomes are not associated with low performance? That is, why would employees develop weak E2s? This happens for a number of reasons. The main one is that many organizations subscribe too strongly to a principle of equality (not to be confused with equity). They give all of their employees equal salaries for equal work, equal pay increases every year (these are known as across-the-board pay raises), and equal treatment wherever possible. Equality-focused organizations reason that some employees "getting more" than others leads to disruptive competition and feelings of inequity.

In time employees in equality-focused organizations develop weak E2s because no distinctions are made for differential outcomes. If the best and the worst salespeople are paid the same, in time they will both decide that it isn't worth the extra effort to be a high performer. Needless to say, this is not the goal of competitive organizations and can cause the demise of the organization as it competes with other firms in today's global marketplace.

Expectancy theory states that to maximize motivation, organizations must make outcomes contingent on performance. This is the main contribution of expectancy theory: it makes us think about *how* organizations should distribute outcomes. If an organization, or a supervisor, believes that treating everyone "the same" will result in satisfied and motivated employees, they will be wrong more times than not. From equity theory, we know that some employees, usually the better-performing ones, will experience underreward inequity. From expectancy theory we know that employees will see no difference in outcomes for good and poor performance, so they will not have as much incentive to be good performers. Effective organizations must actively encourage the perception that good performance leads to positive outcomes (bonuses, promotions) and that poor performance leads to negative ones (discipline, termination). Remember, there is a big difference between treating employees equally and treating them equitably.

What if an organization ties positive outcomes to high performance and negative outcomes to low performance? Employees will develop strong E2s. But will this result in highly motivated employees? The answer is maybe. We have yet to address employees' E1s. If employees have weak E1s, they will perceive that high (or low) effort does *not* result in high performance and thus will not exert much effort. It is important for managers to understand that this can happen despite rewards for high performance.

Task-related abilities are probably the single biggest reason why some employees have weak E1s. Self-efficacy is our belief about whether we can successfully execute some future action or task, or achieve some result. High self-efficacy employees believe that they are likely to succeed at most or all of their job duties and responsibilities. And as you would expect, low self-efficacy employees believe the opposite. Specific self-efficacy reflects our belief in our capability to perform a specific task at a specific level of performance. If we believe that the probability of our selling $30,000 of jackrabbit slippers in one month is .90, our self-efficacy for this task is high. Specific self-efficacy is our judgment about the likelihood of successful task performance measured immediately before we expend effort on the task. As a result, specific self-efficacy is much more variable than more enduring notions of personality. Still, there is little doubt that our state-based beliefs are some of the most powerful motivators of behavior. Our efficacy expectations at a given point in time determine not only our initial decision to perform (or not) a task, but also the amount of effort we will expend and whether we will persist in the face of adversity (Bandura, 1977; Bandura, 1986b; Bandura, 1997). Self-efficacy has a strong impact on the E1 factor. As a result, self-efficacy is one of the strongest determinants of performance in any particular task situation (Gardner & Pierce, 1998).

Employees develop weak E1s for two reasons. First, they don't have sufficient resources to perform their jobs. Resources can be internal or external. Internal resources include what employees bring to the job (such as prior training, work experience, education, ability, and aptitude) and their understanding of what they must do to be considered good performers. The second resource is called role perceptions—how employees believe their jobs are done and how they fit into the broader organization. If employees don't know *how* to become good performers, they will have weak E1s. External resources include the tools, equipment, and labor necessary to perform a job. The lack of good external resources can also cause E1s to be weak.

The second reason for weak E1s is an organization's failure to measure performance accurately. That is, performance *ratings* don't correlate well with actual performance *levels*. How does this happen? Have you ever gotten a grade that you felt didn't reflect how much you learned? This also happens in organizations. Why are ratings sometimes inaccurate? Supervisors, who typically give out ratings, well, they're human. Perhaps they're operating under the mistaken notion that similar ratings for everyone will keep the team happy. Perhaps they're unconsciously playing favorites. Perhaps they don't know what good and poor performance levels are. Perhaps the measurements they're expected to use don't fit their product/team/people. Choose one or all of these. Rating people is rarely easy.

Whatever the cause of rating errors, some employees may come to believe that no matter what they do, they will never receive a high-performance rating. They may, in fact, believe that they are excellent performers but that the performance rating system is flawed. Expectancy theory differs from most motivation theories because it highlights the need for accurate performance measurement. Organizations cannot motivate employees to perform at a high level if they cannot identify high performers.

Organizations exert tremendous influence over employee choices in their performance levels and how much effort to exert on their jobs. That is, organizations can have a major impact on the direction and intensity of employees' motivation levels. Practical applications of expectancy theory include:

1. Strengthening the effort ➨ performance expectancy by selecting employees who have the necessary abilities, providing proper training, providing experiences of success, clarifying job responsibilities, etc.
2. Strengthening the performance ➨ outcome expectancy with policies that specify that desirable behavior leads to desirable outcomes and undesirable behavior leads to neutral or undesirable outcomes. Consistent enforcement of these policies is key—workers must believe in the contingencies.
3. Systematically evaluating which outcomes employees value. The greater the valence of outcomes offered for a behavior, the more likely employees will commit to that alternative. By recognizing that different employees have different values and that values change over time, organizations can provide the most highly valued outcomes.
4. Ensuring that effort actually translates into performance by clarifying what actions lead to performance and by appropriate training.
5. Ensuring appropriate worker outcomes for performance through reward schedules (extrinsic outcomes) and appropriate job design (so the work experience itself provides intrinsic outcomes).
6. Examining the level of outcomes provided to workers. Are they equitable, given the worker's inputs? Are they equitable in comparison to the way other workers are treated?
7. Measuring performance levels as accurately as possible, making sure that workers are capable of being high performers.

MANAGING CHANGE

Differences in Motivation across Cultures

The disgruntled employee is hardly a culturally isolated feature of business, and quitting before leaving takes the same forms, regardless of country. Cross-cultural signaling, social norms, and simple language barriers can make the task of motivation for the global manager confusing and counterintuitive. Communicating a passion for a common vision, coaching employees to see themselves as accountable and as owning their work or attempting to create a "motivational ecosystem" can all fall flat with simple missed cues, bad translations, or tone-deaf approaches to a thousand-year-old culture.

Keeping employees motivated by making them feel valued and appreciated is not just a "Western" idea. The Ghanaian blog site (https://starrfm.com.gh/) emphasizes that employee motivation and associated work quality improve when employees feel "valued, trusted, challenged, and supported in their work." Conversely, when employees feel like a tool rather than a person or feel unengaged with their work, then productivity suffers. A vicious cycle can then begin when the manager treats an employee as unmotivated and incapable, which then demotivates the employee and elicits the predicted response. The blogger cites an example from Eastern Europe where a manager sidelined an employee as inefficient and incompetent. After management coaching, the manager revisited his assessment and began working with the employee. As he worked to facilitate the employee's efficiency and motivation, the employee went from being the lowest performer to a valuable team player. In the end, the blog says, "The very phrase 'human resources' frames employees as material to be deployed for organizational objectives. While the essential nature of

employment contracts involves trading labour for remuneration, if we fail to see and appreciate our employees as whole people, efforts to motivate them will meet with limited success" (Starrfmonline, 2017).

Pavel Vosk, a business and management consultant based in Puyallup, Washington, says that too often, overachieving employees turn into unmotivated ones. In looking for the answer, he found that the most common source was a lack of recognition for the employee's effort or exceptional performance. In fact, Vosk found that most employees go the extra mile only three times before they give up. Vosk's advice is to show gratitude for employees' efforts, especially when it goes above and beyond. He says the recognition doesn't have to be over the top, just anything that the employees will perceive as gratitude, from a catered lunch for a team working extra hours to fulfill a deadline to a simple face-to-face thank you (Huhman, 2017).

Richard Frazao, president of Quaketek, based in Montreal, Quebec, stresses talking to the employees and making certain they are engaged in their jobs, citing boredom with one's job as a major demotivating factor (Huhman, 2017).

But motivating employees is not "one size fits all" globally. Rewarding and recognizing individuals and their achievements works fine in Western cultures but is undesirable in Asian cultures, which value teamwork and the collective over the individual. Whether to reward effort with a pay raise or with a job title or larger office is influenced by culture. Demoting an employee for poor performance is an effective motivator in Asian countries but is likely to result in losing an employee altogether in Western cultures. According to Matthew MacLachlan at Communicaid, "Making the assumption that your international workforce will be motivated by the same incentives can be dangerous and have a real impact on talent retention" (2016, n.p.).

? Questions

1. As a Western manager working in the Middle East or sub-Saharan Africa, what motivational issues might you face?
2. What problems would you expect a manager from a Confucian culture to encounter managing employees in America? In Europe?
3. What regional, cultural, or ethnic issues do you think managers have to navigate within the United States?

Expectancy Theory: An Integrative Theory of Motivation

More so than any other motivation theory, expectancy theory can be tied into most concepts of what and how people become motivated. Consider the following examples.

1. *Need theories* state that we are motivated to satisfy our needs. We positively value outcomes that satisfy unmet needs, negatively value outcomes that thwart the satisfaction of unmet needs, and assign neutral values to outcomes that do neither. In effect, the need theories explain how valences are formed.
2. *Operant conditioning theories* state that we will probably repeat a response (behavior) in the future that was reinforced in the past (that is, followed by a positively valued consequence or the removal of a negatively valued consequence). This is the basic process involved in forming performance ➡ outcome expectancies. Both operant theories and expectancy theory argue that our interactions with our environment influence our future behavior. The primary difference is that expectancy theory explains this process in cognitive (rational) terms.
3. *Equity theories* state that our satisfaction with a set of outcomes depends not only on how we value them but also on the circumstances surrounding their receipt. Equity theory, therefore, explains part of the process shown in Figure 11.3.2. If we don't feel that the outcomes we receive are equitable compared with a referent other, we will associate a lower or even negative valence with those outcomes.
4. *Goal theory* can be integrated with the expanded expectancy model in several ways. Locke has noted that expectancy theory explains how we go about choosing a particular goal (Locke, 1978). A reexamination of Figure 11.3.2 reveals other similarities between goal theory and expectancy theory. Locke's use of the term "goal acceptance" to identify the personal adoption of a goal is similar to the "choice of an alternative" in the expectancy model. Locke's "goal commitment," the degree to which we commit to reaching our accepted (chosen) goal, is very much like the expectancy description of choice of effort level. Locke argues that the difficulty and specificity of a goal are major determinants of the level of performance attempted (goal-directed effort), and expectancy theory appears to be consistent with this argument (even though expectancy theory is not as explicit on this point). We can reasonably conclude that the major underlying processes explored by the two models are very similar and will seldom lead to inconsistent recommendations.

Concept Check

1. Understand the process theories of motivation: operant conditioning, equity, goal, and expectancy theories.
2. Describe the managerial factors managers must consider when applying motivational approaches.

FootNotes

- 1 Sometimes E2s are called *instrumentalities* because they are the perception that performance is instrumental in getting some desired outcome.
- It can also be expressed as an equation:

$$\begin{array}{l} \textit{Force to} \\ \text{Choose} \\ \text{A level of Effort} \end{array} = \text{E1} \times \sum (\text{E2}_o \times \text{V}_o)$$

Where VoVo is the valence of a given outcome (o), and E2oE2o is the perceived probability that a certain level of performance (e.g., Excellent, average, poor) will result in that outcome. So, for multiple outcomes, and different performance levels, the valence of the outcome and its associated performance➔outcome expectancy (E2) are multiplied and added to the analogous value for the other outcomes. Combined with the E1 (the amount of effort required to produce a level of performance), the effort level with the greatest *force* associated with it will be chosen by the individual.

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11.5: Recent Research on Motivation Theories

Learning Objectives

1. Describe the modern advancements in the study of human motivation.

Employee motivation continues to be a major focus in organizational behavior (Ambrose & Kulik, 1999). We briefly summarize current motivation research here.

Content Theories

There is some interest in testing content theories (including Herzberg's two-factor theory), especially in international research. Need theories are still generally supported, with most people identifying such workplace factors as recognition, advancement, and opportunities to learn as the chief motivators for them. This is consistent with need satisfaction theories. However, most of this research does not include actual measures of employee performance. Thus, questions remain about whether the factors that employees *say* motivate them to perform actually do.

Operant Conditioning Theory

There is considerable interest in operant conditioning theory, especially within the context of what has been called organizational behavior modification. Oddly enough, there has not been much research using operant conditioning theory in designing reward systems, even though there are obvious applications. Instead, much of the recent research on operant conditioning focuses on punishment and extinction. These studies seek to determine how to use punishment appropriately. Recent results still confirm that punishment should be used sparingly, should be used only after extinction does not work, and should not be excessive or destructive.

Equity Theory

Equity theory continues to receive strong research support. The major criticism of equity theory, that the inputs and outcomes people use to evaluate equity are ill-defined, still holds. Because each person defines inputs and outcomes, researchers are not in a position to know them all. Nevertheless, for the major inputs (performance) and outcomes (pay), the theory is a strong one. Major applications of equity theory in recent years incorporate and extend the theory into the area called *organizational justice.* When employees receive rewards (or punishments), they evaluate them in terms of their fairness (as discussed earlier). This is *distributive justice.* Employees also assess rewards in terms of how fair the processes used to distribute them are. This is *procedural justice.* Thus, during organizational downsizing, when employees lose their jobs, people ask whether the loss of work is fair (distributive justice). But they also assess the fairness of the process used to decide *who* is laid off (procedural justice). For example, layoffs based on seniority may be perceived as fairer than layoffs based on supervisors' opinions.

Goal Theory

It remains true that difficult, specific goals result in better performance than easy and vague goals, assuming they are accepted. Recent research highlights the positive effects of performance feedback and goal commitment in the goal-setting process. Monetary incentives enhance motivation when they are tied to goal achievement, by increasing the level of goal commitment. There are negative sides to goal theory as well. If goals conflict, employees may sacrifice performance on important job duties. For example, if both quantitative and qualitative goals are set for performance, employees may emphasize quantity because this goal achievement is more visible.

Expectancy Theory

The original formulation of expectancy theory specifies that the motivational force for choosing a level of effort is a function of the multiplication of expectancies and valences. Recent research demonstrates that the individual components predict performance just as well, without being multiplied. This does not diminish the value of expectancy theory. Recent research also suggests that high performance results not only when the valence is high but also when employees set difficult goals for themselves.

One last comment on motivation: As the world of work changes, so will the methods organizations use to motivate employees. New rewards—time off instead of bonuses; stock options; on-site gyms, cleaners, and dental services; opportunities to telecommute; and others—will need to be created to motivate employees in the future. One useful path that modern researchers can undertake is to analyze the previous studies and aggregate the findings into more conclusive understanding of the topic through meta-analysis studies (Iddekinge et al., 2018).

CATCHING THE ENTREPRENEURIAL SPIRIT

Entrepreneurs and Motivation

Motivation can be difficult to elicit in employees. So what drives entrepreneurs, who by definition have to motivate themselves as well as others? While everyone from Greek philosophers to football coaches warn about undirected passion, a lack of passion will likely kill any start-up. An argument could be made that motivation is simply *part* of the discipline, or the *outcome* of remaining fixed on a purpose to mentally remind yourself of why you get up in the morning.

Working from her home in Egypt, at age 30 Yasmine El-Mehairy launched Supermama.me, a start-up aimed at providing information to mothers throughout the Arab world. When the company began, El-Mehairy worked full time at her day job and 60 hours a week after that getting the site established. She left her full-time job to manage the site full time in January 2011, and the site went live that October. El-Mehairy is motivated to keep moving forward, saying that if she stops, she might not get going again (Knowledge@Wharton, 2012).

For El-Mehairy, the motivation didn't come from a desire to work for a big company or travel the world and secure a master's degree from abroad. She had already done that. Rather, she said she was motivated to "do something that is useful and I want to do something on my own" (Knowledge@Wharton, 2012).

Lauren Lipcon, who founded a company called Injury Funds Now, attributes her ability to stay motivated to three factors: purpose, giving back, and having fun outside of work. Lipcon believes that most entrepreneurs are not motivated by money but by a sense of purpose. Personally, she left a job with Arthur Andersen to begin her own firm out of a desire to help people. She also thinks it is important for people to give back to their communities because the change the entrepreneur sees in the community loops back, increasing motivation and making the business more successful. Lipcon believes that having a life outside of work helps keep the entrepreneur motivated. She particularly advocates for physical activity, which not only helps the body physically but also helps keep the mind sharp and able to focus (Rashid, 2017).

But do all entrepreneurs agree on what motivates them? A July 17, 2017 survey on the entrepreneur's blog site asked 23 different entrepreneurs what motivated them. Seven of the 23 referred to some sense of purpose in what they were doing as a motivating factor, with one response stressing the importance of discovering one's "personal why." Of the remaining entrepreneurs, answers varied from keeping a positive attitude (three responses) and finding external sources (three responses) to meditation and prayer (two responses). One entrepreneur said his greatest motivator was fear: the fear of being in the same place financially one year in the future "causes me to take action and also alleviates my fear of risk" (Hear from Entrepreneurs, 2017). Only one of the 23 actually cited money and material success as a motivating factor to keep working.

However they describe motivation, entrepreneurs seem to agree that passion and determination are key factors that carry them through the grind of the day-to-day.

? Questions

1. In the article from Hear from Entrepreneurs, one respondent called motivation "garbage." Would you agree or disagree, and why?
2. How is staying motivated as an entrepreneur similar to being motivated to pursue a college degree? Do you think the two are related? How?
3. How would you expect motivation to vary across cultures?

Concept Check

1. Understand the modern approaches to motivation theory.

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11.6: Summary

key terms

ability
The knowledge, skills, and receptiveness to learning that an individual brings to a task or job.

content motivation theories
Theories that focus on what motivates people.

direction
What a person is motivated to achieve.

intensity
(1) The degree to which people try to achieve their targets; (2) the forcefulness that enhances the likelihood that a stimulus will be selected for perceptual processing.

motivation
A force within or outside of the body that energizes, directs, and sustains human behavior. Within the body, examples might be needs, personal values, and goals, while an incentive might be seen as a force outside of the body. The word stems from its Latin root *movere*, which means "to move."

performance environment
Refers to those factors that impact employees' performance but are essentially out of their control.

process motivation theories
Theories that focus on the how and why of motivation.

role perceptions
The set of behaviors employees think they are expected to perform as members of an organization.

work motivation
The amount of effort a person exerts to achieve a level of job performance

ERG theory
Compresses Maslow's five need categories into three: existence, relatedness, and growth.

extrinsic motivation
Occurs when a person performs a given behavior to acquire something that will satisfy a lower-order need.

hedonism
Assumes that people are motivated to satisfy mainly their own needs (seek pleasure, avoid pain).

hygienes
Factors in the work environment that are based on the basic human need to "avoid pain."

instincts
Our natural, fundamental needs, basic to our survival.

intrinsic motivation
Arises out of performing a behavior in and of itself, because it is interesting or "fun" to do.

latent needs

Cannot be inferred from a person's behavior at a given time, yet the person may still possess those needs.

manifest needs
Are needs motivating a person at a given time.

manifest needs theory
Assumes that human behavior is driven by the desire to satisfy needs.

motivators
Relate to the jobs that people perform and people's ability to feel a sense of achievement as a result of performing them.

motive
A source of motivation; the need that a person is attempting to satisfy.

need for achievement (nAch)
The need to excel at tasks, especially tasks that are difficult.

need for affiliation (nAff)
The need to establish and maintain warm and friendly relationships with other people.

need for power (nPow)
The need to control things, especially other people; reflects a motivation to influence and be responsible for other people.

need
A human condition that becomes energized when people feel deficient in some respect.

primary needs
Are instinctual in nature and include physiological needs for food, water, and sex (procreation).

secondary needs
Are learned throughout one's life span and are psychological in nature.

self-determination theory (SDT)
Seeks to explain not only what causes motivation, but also the effects of extrinsic rewards on intrinsic motivation.

avoidance learning
Occurs when people learn to behave in a certain way to avoid encountering an undesired or unpleasant consequence.

effort-performance expectancy
E1, the perceived probability that effort will lead to performance (or E ➡ P).

equity theory
States that human motivation is affected by the outcomes people receive for their inputs, compared to the outcomes and inputs of other people.

expectancy theory
Posits that people will exert high effort levels to perform at high levels so that they can obtain valued outcomes.

extinction
Occurs when a consequence or lack of a consequence makes it less likely that a behavior will be repeated in the future.

extrinsic outcomes
Are awarded or given by other people (such as a supervisor).

goal commitment

The degree to which people dedicate themselves to achieving a goal.

goal theory

States that people will perform better if they have difficult, specific, accepted performance goals or objectives.

input

Any personal qualities that a person views as having value and that are relevant to the organization.

intrinsic outcomes

Are awarded or given by people to themselves (such as a sense of achievement).

negative reinforcement

Occurs when a behavior causes something undesirable to be removed, increasing the likelihood of the behavior reoccurring.

nonreinforcement

Occurs when no consequence follows a worker's behavior.

operant conditioning

A learning process based on the results produced by a person "operating on" the environment.

operant conditioning theory

Posits that people learn to behave in a particular fashion as a result of the consequences that followed their past behaviors.

outcome

Anything a person perceives as getting back from an organization in exchange for the person's inputs.

overreward inequity

Occurs when people perceive their outcome/input ratio to be greater than that of their referent other.

performance-outcome expectancy

E2, the perceived relationship between performance and outcomes (or P ➡ O).

positive reinforcement

Occurs when a desirable consequence that satisfies an active need or removes a barrier to need satisfaction increases the likelihood of a behavior reoccurring.

punishment

An aversive consequence that follows a behavior and makes it less likely to reoccur.

referent others

Workers that a person uses to compare inputs and outcomes, and who perform jobs similar in difficulty and complexity to the employee making an equity determination.

reinforcement

Occurs when a consequence makes it more likely a behavior will be repeated in the future.

schedules of reinforcement

The frequency at which effective employee behaviors are reinforced.

self-efficacy

A belief about the probability that one can successfully execute some future action or task, or achieve some result.

state of equity

Occurs when people perceive their outcome/input ratio to be equal to that of their referent other.

underreward inequity
Occurs when people perceive their outcome/input ratio to be less than that of their referent other.

valences
The degree to which a person perceives an outcome as being desirable, neutral, or undesirable.

11.1 Motivation: Direction and Intensity

1. Define motivation, and distinguish direction and intensity of motivation.

This chapter has covered the major motivation theories in organizational behavior. Motivation theories endeavor to explain how people become motivated. Motivation has two major components: direction and intensity. Direction is what a person is trying to achieve. Intensity is the degree of effort a person expends to achieve the target. All motivation theories address the ways in which people develop direction and intensity.

11.2 Content Theories of Motivation

1. Describe a content theory of motivation, and compare and contrast the main content theories of motivation: manifest needs theory, learned needs theory, Maslow's hierarchy of needs, Alderfer's ERG theory, Herzberg's motivator-hygiene theory, and self-determination theory.

Motivation theories are classified as either content or process theories. Content theories focus on what motivates behavior. The basic premise of content theories is that humans have needs. When these needs are not satisfied, humans are motivated to satisfy the need. The need provides direction for motivation. Murray's manifest needs theory, McClelland's learned needs theory, Maslow's hierarchy of needs, and Herzberg's motivator-hygiene theory are all content theories. Each has something to say about the needs that motivate humans in the workplace.

11.3 Process Theories of Motivation

1. Describe the process theories of motivation, and compare and contrast the main process theories of motivation: operant conditioning theory, equity theory, goal theory, and expectancy theory.

Process theories focus on how people become motivated. Operant conditioning theory states that people will be motivated to engage in behaviors for which they have been reinforced (rewarded). It also states that people will avoid behaviors that are punished. The rate at which behaviors are rewarded also affects how often they will be displayed. Equity theory's main premise is that people compare their situations to those of other people. If a person feels that they are being treated unfairly relative to a referent other, the person may engage in behaviors that are counterproductive for the organization. Employers should try to develop feelings of fairness in employees. Goal theory is a strong theory. It states that difficult, specific goals will result in high performance if employees accept the goals and are committed to achieving them.

11.4 Recent Research on Motivation Theories

1. Describe the modern advancements in the study of human motivation.

Expectancy theory is a process theory. It also is the broadest of the motivation theories. Expectancy theory predicts that employees will be motivated to be high performers if they perceive that high performance leads to valued outcomes. Employees will be motivated to avoid being low performers if they perceive that it leads to negative outcomes. Employees must perceive that they are capable of achieving high performance, and they must have the appropriate abilities and high self-efficacy. Organizations need to provide adequate resources and measure performance accurately. Inaccurate performance ratings discourage high performance. Overall, expectancy theory draws attention to how organizations structure the work environment and distribute rewards.

? Chapter Review Questions

1. Discuss the benefits that accrue when an organization has a good understanding of employee needs.
2. How might Maslow explain why organizational rewards that motivate workers today may not motivate the same workers in 5 or 10 years?

3. Describe the process by which needs motivate workers.
4. Discuss the importance of Herzberg's motivators and hygienes.
5. Describe a work situation in which it would be appropriate to use a continuous reinforcement schedule.
6. Discuss the potential effectiveness and limitations of punishment in organizations.
7. How can equity theory explain why a person who receives a high salary might be dissatisfied with their pay?
8. Equity theory specifies a number of possible alternatives for reducing perceived inequity. How could an organization influence which of these alternatives a person will pursue?
9. What goals would be most likely to improve your learning and performance in an organizational behavior class?
10. Identify two reasons why a formal goal-setting program might be dysfunctional for an organization.
11. What steps can an organization take to increase the motivational force for high levels of performance?
12. Discuss how supervisors sometimes unintentionally weaken employees E ➡ P and P ➡ O expectancies.
13. How can an employee attach high valence to high levels of performance, yet not be motivated to be a high performer?
14. Is there "one best" motivation theory? Explain your answer.

? Management Skills Application Exercises

1. Many companies strive to design jobs that are intrinsically motivating. Visit several small and large company websites and search their career section. What job features related to motivation are highlighted? What type of employees do you think the companies will attract with these jobs?
2. You will be paired with another student in this class. Each of you will take one side of the issue and debate:
   a. Student A: All members of the organization should be given the same specific, difficult-to-achieve goals.
   b. Student B: Specific, difficult-to-achieve goals should only be given to certain members of the organization.
3. Assume the role of sales manager, and write a memo to two of your reports that have the following situations and job performance.
   a. Employee 1: Shawn is a one-time stellar performer. They were twice the top-performing salesperson in the company in the past decade. In the past year, Shawn has missed the goal by 4%. Shawn recently became the parent to twins and says that the reason for missing goal this year was because the territory was saturated with product from previous years.
   b. Employee 2: Soo Kim is an energetic salesperson who is putting in long hours and producing detailed sales reports, but their performance on the sales side has not met expectations. When you examine the customer feedback page on your website, you notice that they have five times as many positive reviews and glowing comments about Soo Kim.

? Managerial Decision Exercises

1. You are a manager and it's performance appraisal time, which is a yearly exercise to provide feedback to your direct reports that is often stressful for both the employee and the manager. You feel that the feedback process should be more of an ongoing process than the yearly formal process. What are the benefits of this yearly process, and what, if any, are the drawbacks of providing both positive and remediation feedback to your direct reports?
2. You have been told by a worker on another team that one of your direct reports made an inappropriate comment to a coworker. What do you do to investigate the matter, and what actions would you take with your report, the person that the comment was directed to, and other people in the organization?
3. You learn that an employee who doesn't report to you has made an inappropriate comment to one of your direct reports. What do you do to investigate the matter, and what actions would you take with your report, the person who made the comment, their manager, and other people in the organization?
4. Your company is considering implementing a 360° appraisal system where up to 10 people in the organization provide feedback on every employee as part of the annual performance appraisal process. This feedback will come from subordinates, peers, and senior managers, as well as individuals in other departments. You have been asked to prepare a memo to the director of human resources about the positive and negative effects this could have on the motivation of employees. Note that not all of the employees are on a bonus plan that will be impacted by this feedback.

Critical Thinking Case

Motivating Employees at JCPenney, Walmart, and Amazon in the Age of Online Shopping

In the 1980s, Walmart had killed (or was killing) the mom-and-pop store. “Buy local” signs were seen, urging consumers to buy from their local retailers rather than from the low-cost behemoth. Markets have continued to shift, and the “buy local” signs are still around, but now the battleground has shifted with the disruptive growth of e-commerce. Even mighty Walmart is feeling some growing pains.

Census Bureau data for 2017 shows that e-commerce, or online shopping, accounted for 8.9 percent of all retail sales in the United States, accounting for $111.5 billion (U.S. Census Bureau, 2017). Feeling the pinch, many malls across the country are closing their doors, and their empty retail spaces are being repurposed. Credit Suisse predicts that due to competition from online shopping, 20 to 25 percent of American malls will close within the next five years (Dying Malls Make Room for New Condos Apartment 2017). Furthermore, according to a 2017 study, 23 percent of Americans already purchase their groceries online (Embrace the Internet, Skip the Checkout, 2017).

Whether face-to-face with customers or filling orders in a warehouse, motivated employees are essential to business success. And company culture helps drive that motivation. As a 2015 *Harvard Business Review* article put it, “Why we work determines how well we work” (McGregor & Doshi, 2015). Adapting earlier research for the modern workplace, the study found six reasons that people work: play, purpose, potential, emotional pressure, economic pressure, and inertia. The first three are positive motives while that later three are negative. The researchers found that role design, more than any other factor, had the highest impact on employee motivation.

Anecdotally, using role design to motivate employees can be seen across industries. Toyota allows factory workers to innovate new processes on the factory floor. Southwest Airlines encourages a sense of "play" among crew members who interact directly with passengers (which has resulted in some humorous viral videos). A sense of the organization’s identity (and a desire to be part of it) and how the career ladder within the company is perceived are second and third in their impact on employee motivation. Unhealthy competition for advancement can do more harm than good to employee motivation, and as a result many large companies are restructuring their performance review and advancement systems (McGregor & Doshi, 2015). Conversely, costs from unmotivated employees can be high. In August 2017, retailer JCPenney had an employee arrested who had allegedly cost the company more than $10,000 in stolen cash and under-rung merchandise at a mall store. Another employee had stolen more than $1,000 of clothes from the store less than a month earlier.

Brick-and-mortar retail outlets from Macy’s to Walmart have come under pressure by increased online shopping, particularly at Amazon.com. Walmart has responded by both trying to improve the shopping experience in its stores and creating an online presence of its own. A recent study funded by Walmart found that 60 percent of retails workers lack proficiency in reading and 70 percent have difficulty with math (Class is in session at Walmart Academy, 2017). Increasing math and team skills for the employees would increase efficiency and certainly help improve employee self-image and motivation. With this in mind, Walmart has created one of the largest employer training programs in the country, Walmart Academy (McGregor & Doshi, 2015). The company expects to graduate more than 225,000 of its supervisors and managers from a program that covers topics such as merchandising and employee motivation. In another program, Pathways, Walmart has created a course that covers topics such as merchandising, communication, and retail math (Walmart 2016 Global Responsibility Report, 2016). The Pathways program was expected to see 500,000 entry-level workers take part in 2016 (Walmart, 2016). All employees who complete the course receive a dollar-an-hour pay increase. Educating employees pays off by recognizing that the effort put in pays off with better-motivated and better-educated employees. In the case of Walmart, “upskilling” has become a priority.

Walmart has gone beyond education to motivate or empower employees. In 2016, pay raises for 1.2 million employees took effect as part of a new minimum-wage policy, and it streamlined its paid time off program that same year (Schmid, 2017). In its 2016 Global Responsibility Report, Walmart points out that over the course of two years, the company has invested $2.7 billion in wages, benefits, and training in the United States (Staley, 2017).

Critical Thinking Questions

1. A 2015 *New York Times* article described Amazon as “a soulless, dystopian workplace where no fun is had and no laughter heard” (Cook, 2015). Employees themselves came to the company’s defense (Ciubotariu, 2015). Does this reputation continue to haunt Amazon, or has it been addressed?
2. How do employees differ between a Walmart retail location and an Amazon order fulfillment center? How many white-collar or skilled jobs does Amazon have compared to Walmart?
3. With Amazon moving into the retail market with the purchase of Whole Foods, and with Walmart expanding its e-commerce, how are employee motivation challenges going to shift?

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CHAPTER OVERVIEW

12: Managing Teams

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12.2: Introduction
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12.4: Team Development Over Time
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12.1: Biblical Insight



Applying the Bible to Business

1 Thessalonians 5:11 states, "Therefore encourage one another and build one another up, just as you are doing." We can apply this scripture to business. In order to keep top talent motivated, organizations need to create a culture of appreciation. Employee recognition doesn't just feel good, it can also increase productivity. According to a 2022 study by the U.S. Surgeon General; a positive workplace culture has a significant impact on employee well-being, productivity, and organizational performance (The U.S. Surgeon General, 2022). Employees are more confident and motivated to meet team goals.

Reference

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12.2: Introduction



Figure 12.112.1: (Credit: MabelAmber/ Pixabay/ (CC BY 0))

Learning Objectives

After reading this chapter, you should be able to answer these questions:

1. What is the benefit of working in teams, and what makes teams effective?
2. How do teams develop over time?
3. What are some key considerations in managing teams?
4. What are the benefits of conflict for a team?
5. How does team diversity enhance decision-making and problem-solving?
6. What are some challenges and best practices for managing and working with multicultural teams?

EXPLORING MANAGERIAL CAREERS

Eva Hartmann, Trellis LLC

Eva Hartmann has nearly 20 years of experience as a strategic, results-driven, innovative leader with significant expertise in human resources strategy, talent and leadership development, and organizational effectiveness. She has worked in a variety of industries, from manufacturing to Fortune 500 consulting. Eva is a transformational change agent who has developed and led strategic human capital programs and talent initiatives in multiple challenging environments globally. Eva is passionate about enhancing both individual and organizational performance.

Eva began her career in one of the large “Big 6” management consulting firms at the time, and she happily returned several years ago to consulting. She is the founder and president of Trellis LLC, a human capital consulting and staffing firm in Richmond, Virginia.

Prior to Trellis, Eva was the global human resources leader for a large global manufacturer of plastic film products and was responsible for the HR strategy and operations of a $600 million global division. In this role, Eva led a global team of HR managers in North and South America, Europe, and Asia to support global HR initiatives to drive business results and build human capital and performance across the division.

Eva has also held a variety of leadership and managerial roles in both human resources and quality functions at several nationally and globally recognized companies, including Wachovia Securities, Genworth Financial, Sun Microsystems, and Andersen Consulting (now Accenture).

Eva holds an MBA from the College of William and Mary in Williamsburg, Virginia, and a BA in anthropology from the University of Virginia in Charlottesville, Virginia. She is also an adjunct faculty member with the University of Richmond Robins School of Business. Eva currently serves on the board of the Society of Human Resource Management (SHRM) of Richmond, Virginia.

Much of the work that is performed today in organizations requires a focus on teamwork. The ability to work successfully as a team member, as well as the ability to lead teams, is an ultimate advantage within the workforce. Teams themselves must be managed, in

addition to managing just the individuals, to be successful. We've all heard the quote originally coined by Aristotle that states that "the whole is greater than the sum of its parts." This captures the nature of the team perfectly—there is such a synergy that comes from a team that the individuals alone are not able to create. This chapter details the importance of and benefits that you may derive from working as a team, as well as some of the ways we can make our teams more successful.

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12.3: Teamwork in the Workplace

Learning Objectives

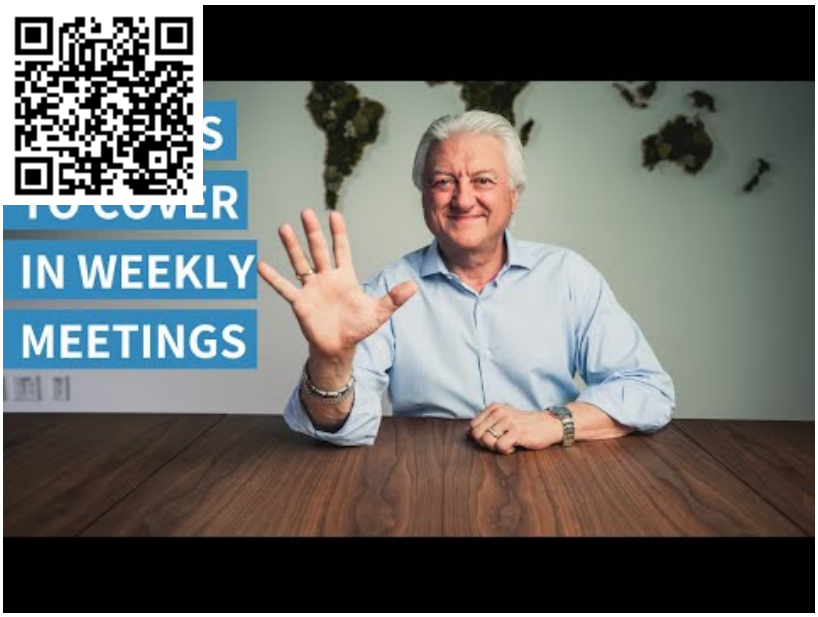
1. What is a team, and what makes a team effective?

Teamwork has never been more important in organizations than it is today. Whether you work in a manufacturing environment and utilize self-directed work teams, or if you work in the "knowledge economy" and derive benefits from collaboration within a team structure, you are harnessing the power of a team.

A team, according to Katzenbach and Smith in their *Harvard Business Review* (HBR) article "The Discipline of Teams," is defined as "people organized to function cooperatively as a group" (Katzenbach & Smith, 2023). The five elements that make teams function are:

- Common commitment and purpose
- Specific performance goals
- Complementary skills
- Commitment to how the work gets done
- Mutual accountability

A team has a specific purpose that it delivers on, has shared leadership roles, and has both individual and mutual accountabilities. Teams discuss, make decisions, and perform real work together, and they measure their performance by assessing their collective work products. Wisdom of Teams reference. This is very different from the classic working group in an organization (usually organized by functional area) in which there is a focused leader, individual accountabilities and work products, and a group purpose that is the same as the broader organizational mission. Think of the finance organization or a particular business unit in your company—these are, in effect, larger working groups that take on a piece of the broader organizational mission. They are organized under a leader, and their effectiveness is measured by the unit's influence on others within the business (e.g., financial performance of the business.)



So, what makes a team truly effective? According to Katzenbach and Smith's "Discipline of Teams," the authors have observed several practices in successful teams:

Establish urgency, demanding performance standards, and direction. Teams work best when they have a compelling reason for being, and it is thus more likely that the teams will be successful and live up to performance expectations. We've all seen the teams

that are brought together to address an “important initiative” for the company, but without clear direction and a truly compelling reason to exist, the team will lose momentum and wither.

Select members for their skill and skill potential, not for their personality. This is not always as easy as it sounds for several reasons. First, most people would prefer to have those with good personalities and positive attitudes on their team to promote a pleasant work environment. This is fine, but make sure that those individuals have the skill sets needed (or the potential to acquire/learn) for their piece of the project. The second caveat here is that you don’t always know what skills you need on a project until you really dig in and see what’s going on. Spend some time upfront thinking about the purpose of the project and the anticipated deliverables you will be producing, and think through the specific types of skills you’ll need on the team.

Pay particular attention to first meetings and actions. This is one way of saying that first impressions mean a lot—and it is just as important for teams as for individuals. Teams will interact with everyone from functional subject-matter experts all the way to senior leadership, and the team must look competent and be perceived as competent. Keeping an eye on your team’s level of emotional intelligence is very important and will enhance your team’s reputation and ability to navigate stakeholders within the organization.

Set some clear rules of behavior. I have been through many meetings and team situations in which we have rushed through “ground rules” because they seemed obvious—and everyone always came up with the same list. It is critical that the team takes the time upfront to capture their own rules of the road to keep the team in check. Rules that address areas such as attendance, discussion, confidentiality, project approach, and conflict are key to keeping team members aligned and engaged appropriately.

Set and seize upon a few immediate performance-oriented tasks and goals. What does this mean? Have some quick wins that make the team feel they’re accomplishing something and working together well. This is very important to the team’s confidence, as well as just getting into the practices of working as a team. Success in the larger tasks will come soon enough, as the larger tasks are really just a group of smaller tasks that fit together to produce a larger deliverable.

Challenge the group regularly with fresh facts and information. That is, continue to research and gather information to confirm or challenge what you know about your project. Don’t assume that all the facts are static and that you received them at the beginning of the project. Often, you don’t know what you don’t know until you dig in. I think that the pace of change is so great in the world today that new information is always presenting itself and must be considered in the overall context of the project.

Spend lots of time together. Here’s an obvious one that is often overlooked. People are so busy that they forget that an important part of the team process is spending time together, thinking together, and bonding. Time in person, time on the phone, time in meetings—all counts and helps build camaraderie and trust.

Exploit the power of positive feedback, recognition, and reward. Positive reinforcement is a motivator that will help the team members feel more comfortable contributing. It will also reinforce the behaviors and expectations that you’re driving within the team. Although many extrinsic rewards can serve as motivators, a successful team begins to feel that its own success and performance is the most rewarding.

Collaboration is another key concept and method by which teams can work together successfully. Bringing together a team of experts from across the business would be a best practice in any situation. However, Gratton and Erickson (2007), in their article Eight Ways to Build Collaborative Teams, found that collaboration seems to decrease sharply when a team is working on complex project initiatives. Their study examined 55 larger teams and identified those with strong collaboration skills despite the level of complexity. There were eight success factors for having strong collaboration skills:

- “Signature” relationship practices
- Role models of collaboration among executives
- Establishment of a “gift” culture, in which managers mentor employees
- Training in relationship skills
- A sense of community
- Ambidextrous leaders—good at task and people leadership
- Good use of heritage relationships
- Role clarity and talk ambiguity

As teams grow in size and complexity, the standard practices that worked well with small teams in the past don't work anymore. Organizations need to think about how to make collaboration work and leverage the above best practices to build relationships and trust.

? Concept Check

1. What is the definition of a team?
2. Name some practices that can make a team more successful.

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12.4: Team Development Over Time

Learning Objectives

1. How do teams develop over time?

If you have been a part of a team—as most of us have—then you intuitively have felt that there are different “stages” of team development. Teams and team members often start from a position of friendliness and excitement about a project or endeavor, but the mood can sour, and the team dynamics can go south very quickly once the real work begins. In 1965, educational psychologist Bruce Tuckman at Ohio State University developed a four-stage model to explain the complexities he had witnessed in team development. The original model was called Tuckman’s Stages of Group Development, and he added the fifth stage of “Adjourning” in 1977 to explain the disbanding of a team at the end of a project. The four stages of the Tuckman's (1965) model are:

- Forming
- Storming
- Norming
- Performing
- Adjourning

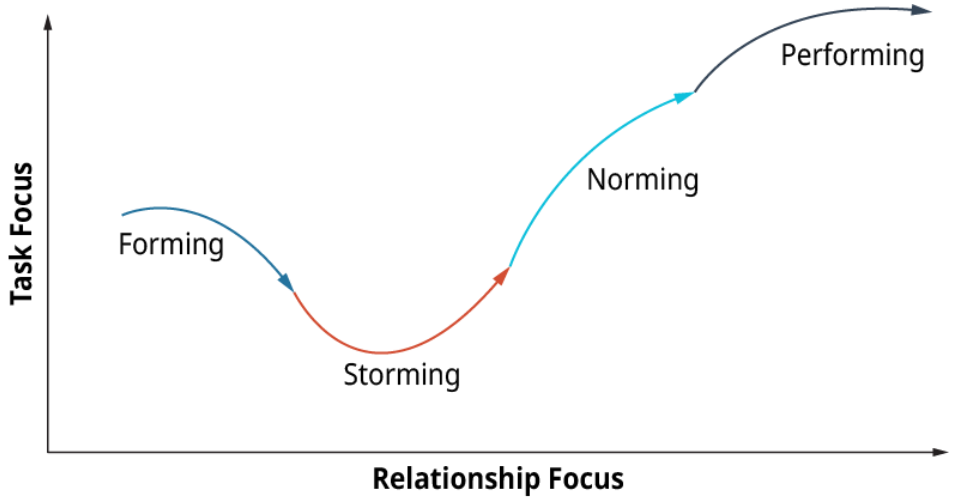


Figure 12.4.1: Tuckman’s Model of Team Development (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

The forming stage begins with the introduction of team members. This is known as the “polite stage,” in which the team focuses on similarities and the group looks to the leader for structure and direction. The team members at this point are enthusiastic, and issues are still being discussed on a global, ambiguous level. This is when the informal pecking order begins to develop, but the team is still friendly.

The storming stage begins as team members begin vying for leadership and testing the group processes. This is known as the “win-lose” stage, as members clash for control of the group and people begin to choose sides. The attitude about the team and the project begins to shift to negative, and there is frustration around goals, tasks, and progress.



Figure 12.4.2: In the storming stage, protracted competition vying for leadership of the group can hinder progress. You are likely to encounter this in your coursework when a group assignment requires forming a team. (Credit: Gerald R. Ford School of Public Policy/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

After what can be a very long and painful storming process for the team, the norming stage may slowly start to take root. During norming, the team starts to work well together, and buy-in to group goals occurs. The team establishes and maintains ground rules and boundaries, and there is a willingness to share responsibility and control. At this point in the team formation, members begin to value and respect each other and their contributions.

Finally, as the team builds momentum and starts to get results, it enters the performing stage. The team is completely self-directed and requires little management direction. The team has confidence, pride, and enthusiasm; vision, team, and self become congruent. As the team continues to perform, it may even succeed in becoming a high-performing team. High-performing teams have optimized both task and people relationships—they are maximizing performance and team effectiveness. Katzenberg and Smith, in their study of teams, have created a “team performance curve” that graphs the journey of a team from a working group to a high-performing team. The team performance curve is illustrated in Figure 12.2.3.

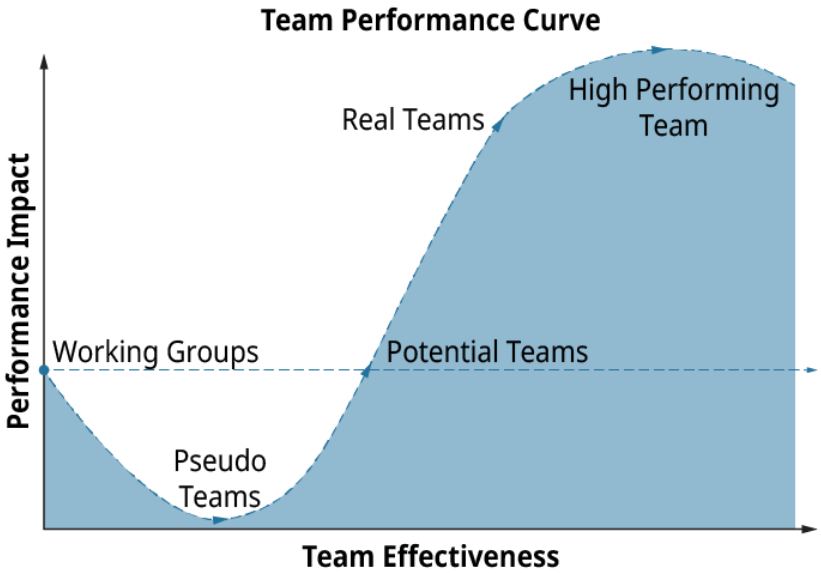


Figure 12.4.3: Team Performance Curve (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The process of becoming a high-performance team is not linear. Similarly, the four stages of team development in the Tuckman model are not linear, and some factors may cause the team to regress to an earlier stage of development. When a team member is added to the group, this may change the dynamic enough and be disruptive enough to cause a backward slide to an earlier stage. Similarly, if a new project task is introduced that causes confusion or anxiety for the group, this may also cause a backward slide to an earlier stage of development. Think of your own experiences with project teams and the backslide that the group may have taken when another team member was introduced. You may have found the same true when a leader or project sponsor changes the scope or adds a new project task. The team has to re-group and will likely re-storm and re-form before getting back to performing as a team.

CATCHING THE ENTREPRENEURIAL SPIRIT

Starting the Startup Team

Nothing is more exciting than a startup business. The enthusiasm is high, and people are excited about the new venture and the prospects that await. Depending on the situation, the startup may receive funding from investors, or the startup could grow and power itself organically. Either way, the startup faces many questions in the beginning that will tremendously impact its growth potential and performance down the road. One of the most critical questions that face a startup—or any business for that matter—is the question of who should be on the team. Human capital is the greatest asset that any company can have, and it is an especially critical decision in a startup environment when you have limited resources, and those resources will be responsible for building the company from the ground up.

In Noam Wasserman's January 2012 HBSP article "Assembling the Startup Team," Wasserman asserts,

"*Nothing can bedevil a high-potential startup more than its people problems. In research on startup performance, venture capitalists attributed 65% of portfolio company failures to problems within the startup's management team. Another study asked investors to identify problems that might occur at their portfolio companies; 61% of the problems involved team issues. These problems typically result from choices that founders make as they add team members…*"

These statistics are based on people problems in startups, and it isn't quite clear what percent of larger company failures could be directly or indirectly attributed to people and team issues. I would imagine that the percentage is also significant. The impact of people problems and team issues in a startup organization that is just getting its footing and trying to make the right connections and decisions can be very significant. If you know anyone who has a company in startup mode, you may have noticed that some of the early team members who are selected to join the team are trusted family members, friends, or former colleagues. Once a startup company grows to a certain level, then it may acquire an experienced CEO to take the helm. In any case, the startup is faced early on with important questions on how to build the team to maximize the chance of success.

In "Assembling the Startup Team," the author refers to the three Rs: relationships, roles, and rewards as being key elements that must be managed effectively to avoid problems in the long term. Relationships refers to the chosen team members, and there are several caveats to keep in mind. Hiring relatives or close friends because they are trusted may seem like the right idea initially, but the long-term hazards (per current research) outweigh the benefits. Family and friends may think too similarly, and the team misses the benefit of other perspectives and connections. Roles are important because you have to think about the division of labor and skills and who is in the right roles for decision-making. The startup team needs to think through the implications of assigning people to specific roles, as that may dictate their decision power and status. Finally, defining the rewards can be difficult for the startup team because it essentially means splitting the pie (i.e., short-term and long-term compensation). This can be a very difficult decision for startup founders when they have to weigh the balance of giving something away versus gaining human capital that may ultimately help the business succeed. Thinking through the tradeoffs and keeping alignment between the "three Rs" is important because it challenges the startup team to think of the long-term consequences of some of their early decisions. It is easy to bring family and friends into the startup equation due to trust factors, but carefully analyzing the "three Rs" will help a startup leadership team make decisions that will pay off in the long term.

? Discussion Questions

1. Why might it be a bad decision to hire someone for a key startup role based only on the fact that the person is close family or a friend? What are the potential tradeoffs to the business?

2. What does it mean for the “three Rs” to be in alignment? What is the potential risk of these not being in alignment? What could go wrong?

? Concept Check

1. What are the four stages of team development?
2. What can cause a team to regress in its development?

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12.5: Opportunities and Challenges to Team Building

Learning Objectives

1. What are the benefits of conflict for a team?

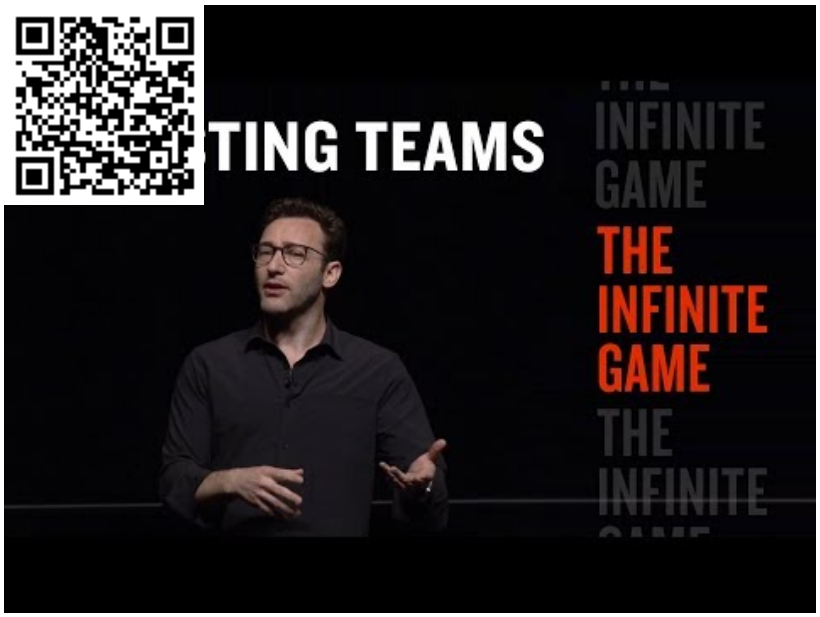
There are many sources of conflict for a team, whether due to a communication breakdown, competing views or goals, power struggles, or conflicts between different personalities. The perception is that conflict is generally bad for a team and will inevitably bring the team down and cause them to spiral out of control and off track. Conflict does have some potential costs. If handled poorly, it can create distrust within a group, be disruptive to group progress and morale, and be detrimental to building lasting relationships. It is generally seen as a negative, even though constructive conflicts and responses to conflicts can be an important developmental milestone for a team. Some potential benefits of conflict are that it encourages a greater diversity of ideas and perspectives and helps people to better understand opposing points of view. It can also enhance a team's problem-solving capability and highlight critical points of discussion and contention that need more thought.

Another key benefit or outcome of conflict is that a team that trusts each other—its members and members' intentions—will arise from conflict being a stronger and higher-performing team. Patrick Lencioni (2007), in his bestselling book *The Five Dysfunctions of a Team* (2002, p. 188), writes:

"The first dysfunction is an absence of trust among team members. Essentially, this stems from their unwillingness to be vulnerable within the group. Team members who are not genuinely open with one another about their mistakes and weaknesses make it impossible to build a foundation for trust. This failure to build trust is damaging because it sets the tone for the second dysfunction: fear of conflict. Teams that lack trust are incapable of engaging in unfiltered and passionate debate of ideas. Instead, they resort to veiled discussions and guarded comments."

Lencioni also asserts that if a team doesn't work through its conflict and air its opinions through debate, team members will never really be able to buy in and commit to decisions. (This lack of commitment is Lencioni's third dysfunction.) Teams often have a fear of conflict so as not to hurt any team members' feelings. The downside of this avoidance is that conflicts still exist under the surface and may resurface in more insidious and back-channel ways that can derail a team. How can a team overcome its fear of conflict and move the team forward? Lencioni names a few strategies that teams can use to make conflict more common and productive. Mining is a technique that can be used in teams that tend to avoid conflict. This technique requires that one team member "assume the role of a 'miner of conflict'—someone who extracts buried disagreements within the team and sheds the light of day on them. They must have the courage and confidence to call out sensitive issues and force team members to work through them." Real-time permission is another technique to "recognize when the people engaged in conflict are becoming uncomfortable with the level of discord, and then interrupt to remind them that what they are doing is necessary." This technique can help the group to focus on the points of conflict by coaching the team not to sweep things under the rug.

The team leader plays a very important role in the team's ability to address and navigate conflicts successfully. Sometimes a leader will have the attitude that conflict is a derailer and will try to stymie it at any cost. This ultimately leads to a team culture in which conflict is avoided and underlying feelings are allowed to accumulate below the surface of the discussion. The leader should, by contrast, model the appropriate behavior by constructively addressing conflict and bringing issues to the surface to be addressed and resolved by the team. This is key to building a successful and effective team.



As a team member, you may see a variety of individual responses to conflict. Some people take the constructive and thoughtful path when conflicts arise, while others may jump immediately to destructive behaviors. In *Managing Conflict Dynamics: A Practical Approach*, Capobianco et al. (2013) recognized that there are both constructive and destructive responses to conflict, as well as active and passive responses that we need to recognize. In the event of team conflict, the goal is to have a constructive response in order to encourage dialogue, learning, and resolution. Responses such as perspective-taking, creating solutions, expressing emotions, and reaching out are considered active and constructive responses to conflict. Reflective thinking, delay responding, and adapting are considered passive and constructive responses to conflict. See Figure 12.4.1 for a visual of the constructive responses, as well as the destructive responses, to conflict.

	Constructive	Destructive
Active	• Perspective taking • Creating solutions • Expressing emotions • Reaching out	• Winning • Displaying anger • Demeaning others • Retaliating
Passive	• Reflective thinking • Delay responding • Adapting	• Avoiding • Yielding • Hiding emotions • Self-criticizing

Figure 12.5.1: Responses to Conflict (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

In summary, conflict is never easy for an individual or a team to navigate, but it can and should be done. Illuminating the team about areas of conflict and differing perspectives can have a very positive impact on the growth and future performance of the team, and it should be managed constructively.

? Concept Check

1. What are some techniques to make conflict more productive?
2. What are some destructive responses to conflict?

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12.6: Team Diversity

Learning Objectives

1. How does team diversity enhance decision-making and problem-solving?

Decision-making and problem-solving can be more dynamic and successful in a diverse team environment. The multiple diverse perspectives can enhance both the understanding of the problem and the quality of the solution. As I reflect on some of the leadership development work I have done in my career, I can say from experience that the team activities and projects that intentionally brought diverse individuals together created the best environments for problem-solving. Diverse leaders from a variety of functions, from across the globe, at varying stages of their careers and experiences within and outside of the company, had the most robust discussions and perspectives. Diversity is a word that is very commonly used today, but the importance of diversity and building diverse teams can sometimes get lost in the normal processes of doing business. Let's discuss why we need to keep these principles front of mind.

In the *Harvard Business Review* article "Why Diverse Teams are Smarter" (Nov. 2016), David Rock and Heidi Grant support the idea that increasing workplace diversity is a good business decision (Rock & Grant, 2016). A 2015 McKinsey report on 366 public companies found that those in the top quartile for ethnic and racial diversity in management were 35% more likely to have financial returns above their industry mean, and those in the top quartile for gender diversity were 15% more likely to have returns above the industry mean. Similarly, in a global analysis conducted by Credit Suisse, organizations with at least one female board member yielded a higher return on equity and higher net income growth than those without women on the board.



Additional research on diversity has shown that diverse teams are better at decision-making and problem-solving because they tend to focus more on facts, per the Rock and Grant article (Rock & Grant, 2016). A study published in the *Journal of Personality and Social Psychology* showed that people from diverse backgrounds "might actually alter the behavior of a group's social majority in ways that lead to improved and more accurate group thinking." In the study, the diverse panels raised more facts related to the case than homogenous panels and made fewer factual errors while discussing available evidence. Another study in the article showed that diverse teams are "more likely to constantly reexamine facts and remain objective. They may also encourage greater scrutiny of each member's actions, keeping their joint cognitive resources sharp and vigilant. By breaking up workforce homogeneity, you can allow your employees to become more aware of their own potential biases—entrenched ways of thinking that can otherwise blind them to key information and even lead them to make errors in decision-making processes." In other words, when people are among homogeneous and like-minded (nondiverse) teammates, the team is susceptible to groupthink and may be reticent to think about opposing viewpoints since all team members are in alignment. In a more diverse team with a variety of backgrounds and experiences, opposing viewpoints are more likely to come out, and the team members feel obligated to research and address the questions raised. Again, this enables a richer discussion and more in-depth fact-finding and exploration of opposing ideas and viewpoints to solve problems.

Diversity in teams also leads to greater innovation. A Boston Consulting Group article entitled "The Mix that Matters: Innovation through Diversity" explains a study in which BCG and the Technical University of Munich conducted an empirical analysis to

understand the relationship between diversity in managers (all management levels) and innovation. The key findings of this study show that (Lorenzo et al., 2017):

- The positive relationship between management diversity and innovation is statistically significant—and thus, companies with higher levels of diversity derive more revenue from new products and services.
- The innovation boost isn't limited to a single type of diversity. The presence of managers who are either female or are from other countries, industries, or companies can cause an increase in innovation.
- Management diversity seems to have a particularly positive effect on innovation at complex companies with multiple product lines or that operate in multiple industry segments.
- For a company to reach its potential, gender diversity must go beyond tokenism. In the study, innovation performance only increased significantly when the workforce included more than 20% women in management positions. A high percentage of female employees doesn't increase innovation if only a few women are managers.
- At companies with diverse management teams, openness to contributions from lower-level workers and an environment where employees feel free to speak their minds are crucial for fostering innovation.

When you consider the impact that diverse teams have on decision-making and problem-solving—through the discussion and incorporation of new perspectives, ideas, and data—it is no wonder that the BCG study shows greater innovation. Team leaders must reflect upon these findings during the early stages of team selection to reap the benefits of having diverse voices and backgrounds.

? Concept Check

1. Why do diverse teams focus more on data than homogeneous teams?
2. How are diversity and innovation related?

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12.7: Multicultural Teams

Learning Objectives

1. What are some challenges and best practices for managing and working with multicultural teams?

As globalization has increased over the last decades, workplaces have felt the impact of working within multicultural teams. The earlier section on team diversity outlined some of the highlights and benefits of working on diverse teams, and a multicultural group certainly qualifies as diverse. However, some key practices are recommended to those leading multicultural teams so that they can parlay the diversity into an advantage and not be derailed by it.

People may assume that communication is the key factor that can derail multicultural teams, as participants may have different languages and communication styles. In the *Harvard Business Review* article "Managing Multicultural Teams," the authors point out four key cultural differences that can cause destructive conflicts in a team (Brett et al., 2020). The first difference is *direct versus indirect communication*. Some cultures are very direct and explicit in their communication, while others are more indirect and ask questions rather than pointing out problems. This difference can cause conflict because, at the extreme, the direct style may be considered offensive by some, whereas the indirect style may be perceived as unproductive and passive-aggressive in team interactions.

The second difference that multicultural teams may face is *trouble with accents and fluency*. When team members don't speak the same language, there may be one language that dominates the group interaction—and those who don't speak it may feel left out. The speakers of the primary language may feel that those members don't contribute as much or are less competent. The next challenge is when there are *differing attitudes toward hierarchy*. Some cultures are very respectful of the hierarchy and will treat team members based on that hierarchy. Other cultures are more egalitarian and don't observe hierarchical differences to the same degree. This may lead to clashes if some people feel they are being disrespected and not treated according to their status. The final difference that may challenge multicultural teams is *conflicting decision-making norms*. Different cultures make decisions differently, and some will apply significant analysis and preparation beforehand. Those cultures that make decisions more quickly (and need just enough information to make a decision) may be frustrated with the slow response and relatively longer thought process.

These cultural differences are good examples of how everyday team activities (decision-making, communication, interaction among team members) may become points of contention for a multicultural team if there isn't adequate understanding of everyone's culture. The authors propose several potential interventions to try if these conflicts arise. One simple intervention is adaptation, which is working with or around differences. This is best used when team members are willing to acknowledge the cultural differences and learn how to work with them. The next intervention technique is structural intervention or reorganizing to reduce friction on the team. This technique is best used if unproductive subgroups or cliques within the team need to be moved around. Managerial intervention is the technique of making decisions by management and without team involvement. This technique should be used sparingly, as it essentially shows that the team needs guidance and can't move forward without management getting involved. Finally, exit is an intervention of last resort and is the voluntary or involuntary removal of a team member. If the differences and challenges have proven so great that an individual on the team can no longer work with the team productively, then removing the team member in question may be necessary.

Some people seem to be innately aware of and able to work with cultural differences on teams and in their organizations. These individuals might be said to have cultural intelligence. Cultural intelligence is a competency and a skill that enables individuals to function effectively in cross-cultural environments. It develops as people become more aware of the influence of culture and more capable of adapting their behavior to the norms of other cultures. In the *IESE Insight* article entitled "Cultural Competence: Why It Matters and How You Can Acquire It" the authors Lee and Liao (2015) assert that "multicultural leaders may relate better to team members from different cultures and resolve conflicts more easily. Their multiple talents can also be put to good use in international negotiations." Multicultural leaders don't have a lot of "baggage" from any one culture and so are sometimes perceived as being culturally neutral. They are very good at handling diversity, which gives them a great advantage in their relationships with teammates.

To help employees become better team members in an increasingly multicultural world, the authors recommend a few best practices for honing cross-cultural skills. The first is to "broaden your mind"—expand your own cultural channels (travel, movies, books) and surround yourself with people from other cultures. This helps raise your awareness of the cultural differences and norms you may encounter. Another best practice is to "develop your cross-cultural skills through practice" and experiential learning. You may have the opportunity to work or travel abroad—but if you don't, getting to know some of your company's cross-cultural colleagues or foreign visitors will help you practice your skills. Serving on a cross-cultural project team and getting to know and bond with your global colleagues is an excellent way to develop skills. In my own "past life," I led a global human resources organization, and my team included employees from China, India, Brazil, Hungary, the Netherlands, and the United States. We would have annual meetings as a global HR team, and it was so rewarding to share and learn about each other's cultures. We would initiate the week with a gift exchange in a "show and tell" format from our various countries, so that everyone would learn a little bit more about the cultures in which our colleagues were working. This type of interaction within a global team is a great way to facilitate cross-cultural understanding and communication and to sharpen everyone's cultural intelligence.

MANAGING CHANGE

Understanding Our Global Colleagues

If you are a part of a global team, many challenges confront you even before you talk about people dynamics and cultural differences. You first may have to juggle time zone differences to find an adequate meeting time that suits all team members. (I used to have a team call with my Chinese colleagues at 8 p.m. my time so that I could catch them at 8 a.m. in China the next day) Language challenges can also pose a problem. In many countries, people are beginning to learn English as one of the main business languages. However, as I have experienced, people don't always speak their language like you might learn it in a book. There are colloquialisms, terms, and abbreviations of words you can't learn in a classroom—you need to experience how people speak in their native countries.

You also need to be open-minded and look at situations from the perspective of your colleagues' cultures, just as you hope they will be open-minded about yours. This is referred to as cultural intelligence. Whenever I would travel globally to visit my colleagues in other countries, I would see foods, traditions, situations, and behaviors that were very "foreign" to me. Although my first response to experiencing these might be to think, "Wow, that's strange," I would try to think about what some of my global colleagues find "foreign" when they come to visit me in the United States. For example, my travel to China would put me in contact with chicken feet, a very popular food in China and one that I dislike immensely. Whenever I was offered chicken feet, I would turn them down in the most polite way possible and take another food offered instead. I started to wonder about what my Chinese colleagues thought about the food when they'd come to visit me in the United States. Every year, I would host a global HR meeting in the United States, and a bit part of that meeting was the camaraderie and the sharing of various meals together. When I asked my Chinese colleagues what foods they thought were unpleasant, they mentioned cheese and meat. I was surprised about the meat, and when I asked, they said that it wasn't the meat itself necessarily, but it was the giant portions of meat that Americans will eat that, to them, is pretty unappetizing. Again, it is so important to check yourself and your own culture every so often and to think about those elements that we take for granted (e.g., gigantic meat portions) and try to look at them from the eyes of another culture. It really makes us smarter and better partners to our global colleagues around the world.

In the *HBR* article "Getting Cross-Cultural Teamwork Right," the author states that three key factors—mutual learning, mutual understanding, and mutual teaching—build trust with cross-cultural colleagues as you try to bridge cultural gaps. With mutual learning, global colleagues learn from each other and absorb the new culture and behaviors through listening and observation. In mutual understanding, you try to understand the logic and cultural behaviors of the new culture to understand why people are doing what they do. This, of course, requires suspending judgment and trying to understand and embrace the differences. Finally, mutual teaching involves instructing and facilitating. This means trying to bridge the gap between the two cultures and helping yourself and others see where different cultures are coming from to resolve misunderstandings.

Understanding and finding common ground with your global colleagues isn't easy; it takes patience and continuous improvement. In the end, however, I think that you will find it one of the most rewarding and enlightening things you can do. The more we work to close the multicultural "gap" and make it a multicultural advantage, the better off we will be as professionals and people.

Discussion Questions

1. What are some multicultural experiences you've had in which you feel there was a very wide gap between you and an individual from another culture? How did you handle it?
2. Has economic globalization helped people to bridge these cultural gaps? Why or why not?

Once you have a sense of the different cultures and have started to work on developing your cross-cultural skills, another good practice is to "boost your cultural metacognition" and monitor your own behavior in multicultural situations. When you are in a situation in which you are interacting with multicultural individuals, you should test yourself and be aware of how you act and feel. Observe your positive and negative interactions with people and learn from them. Developing "cognitive complexity" is the final best practice for boosting multicultural skills. This is the most advanced, and it requires viewing situations from more than one cultural framework. To see things from another perspective, you need to have a strong sense of emotional intelligence, empathy, and sympathy and be willing to engage in honest communications.

In the *Harvard Business Review* article "Cultural Intelligence," the authors describe three sources of cultural intelligence that teams should consider if they are serious about becoming more adept in their cross-cultural skills and understanding. These sources, very simply, are head, body, and heart. One first learns about foreign cultures' beliefs, customs, and taboos via the head. Training programs are based on providing this type of overview information—which is helpful but obviously isn't experiential. This is the cognitive component of cultural intelligence. The second source, the body, involves more commitment and experimentation with the new culture. This physical component (demeanor, eye contact, posture, accent) shows a deeper understanding of the new culture and its physical manifestations. The final source, the heart, deals with a person's own confidence in their ability to adapt to and deal well with cultures outside of their own. Heart really speaks to one's own level of emotional commitment and motivation to understand the new culture.

The authors have created a quick assessment to diagnose cultural intelligence based on these cognitive, physical, and emotional/motivational measures (i.e., head, body, heart).

Please refer to Table 12.1 for a short diagnostic that allows you to assess your cultural intelligence.

Table 12.1 Assessing Your Cultural Intelligence

Give your responses using a 1 to 5 scale where 1 means strongly disagree and 5 means strongly agree with the statement.	
	Before I interact with people from a new culture, I wonder to myself what I hope to achieve.
	If I encounter something unexpected while working in a new culture, I use that experience to build new ways to approach other cultures in the future.
	I plan on how I will relate to people from a different culture before meeting with them.
	When I come into a new cultural situation, I can immediately sense whether things are going well or going wrong.
	Add your total from the four questions above.
	Divide the total by 4. This is your ***Cognitive Cultural Quotient***.
	It is easy for me to change my body language (posture or facial expression) to suit people from a different culture.
	I can alter my expressions when a cultural encounter requires it.
	I can modify my speech style by changing my accent or pitch of voice to suit people from different cultures.
	I can easily change the way I act when a cross-cultural encounter seems to require it.
	Add your total from the four questions above.
	Divide the total by 4. This is your ***Cognitive Physical Quotient***.
	I have confidence in my ability to deal well with people from cultures different from mine.
	I am certain that I can befriend people of different cultural backgrounds than mine.
	I can adapt to the lifestyle of a different culture with relative ease.
	I am confident in my ability to deal with an unfamiliar cultural situation or encounter.
	Add your total from the four questions above.
	Divide the total by 4. This is your ***Emotional/Motivational Cognitive Quotient***.
Generally, scoring below 3 in any one of the three measures signals an area requiring improvement. Averaging over 4 displays strength in cultural intelligence.	
Adapted from “Cultural Intelligence,” Earley and Mosakowski, *Harvard Business Review*, October 2004	

Table 12.1

Cultural intelligence is an extension of emotional intelligence. An individual must have a level of awareness and understanding of the new culture to adapt to the style, pace, language, nonverbal communication, etc., and work together successfully with the new culture. A multicultural team can only find success if its members take the time to understand each other and ensure that everyone feels included. Multiculturalism and cultural intelligence are traits that are taking on increasing importance in the business world today (Earley & Mosakowski, 2004). By following best practices and avoiding the challenges and pitfalls that can derail a

multicultural team, a team can find great success and personal fulfillment well beyond the boundaries of the project or work engagement.

? Concept Check

1. What are some of the challenges of a multicultural team?
2. Explain the cultural intelligence techniques of head, body, and heart.

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12.8: Things to Consider When Managing Teams

Learning Objectives

1. What are some key considerations in managing teams?

Those of us who have had the pleasure of managing or leading a team know that it can feel like a dubious distinction. Leading a team is fulfilling—especially if the task or organizational mandate at hand is so critical to the organization that people are happy to be a part of the team that drives things forward. It can also be an exercise in frustration, as the charge is to lead a group composed of various individuals, who at various times act like a group and like a bunch of individuals. Managing teams is no small feat, and the most experienced managers truly understand that success ultimately depends on their ability to build a strong and well-functioning team. In J.J. Gabarro's *The Dynamics of Taking Charge* (1987), he quotes a manager who had successfully worked to turn around several organizations:

"People have to want to work together; they have to see how to do it. There has to be an environment for it and that takes time. It's my highest priority right now but I don't write it down anywhere because it's not like other priorities. If I told corporate that building a team was my prime goal they'd tell me, so what? They'd expect that as part of making things better."

I love this quotation because it's so indicative of the state of most organizations today. The focus is on corporate goals and priorities—very task-driven and outcome-driven—but it is the people dynamics and how people work together in the company and in TEAMS that can make a real difference to the goals and outcome.

MANAGERIAL LEADERSHIP

Who Am I Managing?

Making the jump from individual contributor to manager is never easy, and it doesn't take long for a new manager to realize that what got him there is much different than what is needed to be successful in the future. Individual contributors that have been recently promoted would probably say that they have strong technical skills in their area, and that they were very good at doing what they were doing. In a more savvy organization that recognizes leadership competencies, individual contributors would probably say that they have strong technical skills AND that they showed some behaviors and potential to lead others. When new managers enter their new roles, they expect that they will be managing people—that is, the people on their teams. Few new managers fully realize that the challenge ahead is not just in managing their people, but in managing all the other stakeholders and constituencies that want to and need to weigh in.

One of the key challenges that new managers face is balancing all the multiple demands from both the team and the stakeholders and constituencies external to the team. Linda A. Hill, the Wallace Brett Donham Professor of Business Administration at Harvard Business School, states that "among all the challenges facing new managers, the need to reconcile different constituencies' expectations and interests is probably the most difficult." She asserts that the demands that the new manager's direct reports, peers, boss, and the company's customers place on the new manager will sometimes cause conflict. Having teams of their own, new managers may think that managing their direct reports is their most important role, even at the exclusion of managing other stakeholders. This is incorrect. A new manager needs to "manage his other consistencies just as carefully." ("Helping New Managers Succeed," Lauren Keller Johnson, *HBR* 2008).

Whenever I started a new role, I always created a quick stakeholder checklist for myself. This document is essentially a list of all the stakeholders (beyond the team I am managing) with whom I need to build a relationship to succeed. I listed the names of my boss, my boss's boss, my peers, and any other key influencers or internal customers from the business. This is a quick checklist of the people I need to immediately have a "meet and greet" with and then possibly even set up a regular meeting with at a certain cadence. I have learned over the years that each of these stakeholders will have some input and impact on my success, and the quicker and more effectively I engage them in the work my team is performing, the better the chance of my team's success. Some of the questions I will ask myself when figuring out my stakeholder list include:

- Whose support will I need?
- Who needs my support? What do they need from me or my team?

- Who can keep me and my team from being successful?
- What is my ongoing influencing strategy?

Some new managers will feel that these strategies for building stakeholder support are too "political" and don't feel right. Trust me when I tell you that this is a necessary part of the new manager role because now the role and the work call for greater interdependence and relationship building to succeed. It is no longer just about individual technical skills but more about building and managing relationships with people who will support you and your team to get your work done. So, if you are a new manager asking, "Who am I managing?" the answer is EVERYONE.

? Discussion Questions

1. Do you agree with the statement that "what got you there isn't what will make you successful in the future"? Why or why not?
2. Who would be on your stakeholder checklist? Which stakeholders are you already engaging and building relationships with?

In Linda A. Hill's (1995) *Harvard Business Review* article "Managing Your Team," she discusses that managing a team means managing paradox. Paradox exists in the fact that teams have both individual and collective identities and goals. Each individual has goals and ideas about what he wants to accomplish—on the project, in one's career, and in life. Of course, the team has goals and success metrics that it needs to meet to succeed. Sometimes these can conflict with each other. Competition may arise among team members, and a win-loss attitude may occur over a collaborative and problem-solving team dynamic. The team manager may need to step in to help integrate all of the individual differences to enable them to pursue the team goal productively. Therein lies the primary paradox—balancing individual differences and goals AND the collective identity and goals. Other paradoxes include:

- Fostering support AND confrontation among team members
- Focusing on performance AND learning and development
- Balancing managerial authority AND team member discretion and autonomy
- Balancing the Triangle of Relationships—manager, team, and individual

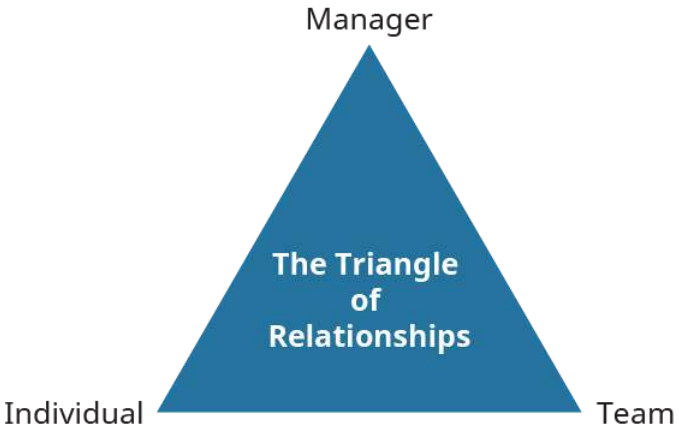


Figure 12.8.1: The Triangle of Relationships (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Managing a team also means managing its boundaries. Managing the team's boundaries—or space between the team and its external forces, stakeholders, and pressures—is a delicate balance of strategy, stakeholder management, and organizational behavior. The team manager must serve, in part, as a buffer to these external factors so that they don't derail or distract the team from its goals. However, the manager must also understand enough about the external environment and have enough emotional intelligence to understand which forces, players, or situations must be synthesized within the team for its own benefit. Think about any medium or large-scale change initiative you have participated in in your career. Ideally, there is generally a vision for change and a level of sponsorship at the senior levels of the organization that is supposed to pave the way for that change to take root. The project team is officially "blessed" to kick off the team, create a charter, and identify the needed actions to drive the initiative to successful completion.

The dynamic that ensues after the kickoff is really what will determine the success of the team. There are numerous stakeholders in any organization, and many will be pro-change initiative, but others may be against the initiative—either due to lack of understanding or concerns about losing power, territory, etc. The external environment and business strategy may not be particularly well suited for a change initiative, so there may be the feeling of forces opposing the project team's efforts. A strong team manager needs to manage these “boundaries” within the organization to help the team navigate through and with the organizational complexities, goals, nuances, and egos that are a part of any organization. In Linda A. Hill’s *Harvard Business Review* article “Exercising Influence,” she states that “managers also need to manage relationships with those who are outside their team but inside their organizations (Hill, 1994). To do so, they must understand the power dynamics of the larger organization and invest time and energy in building and maintaining relationships with those on who the team is dependent.” It is also, in her view, “the manager’s job, at a minimum, to educate other about organizational structures, systems, or politics that interfere with the team’s performance.” With all of the potential external influences on a team, managing a team’s boundaries can truly mean the difference between success and failure.

The final element of managing a team is managing the team itself—both the people and the process elements or task at hand. The process-focused elements include managing the work plan to reach the overall goal and the incremental meetings and milestones that are part of the team’s journey to reach the longer-term goal. Keeping the team focused on its objectives—from setting agendas to managing project tasks and celebrating milestones—assures that the team will stay on track. Projects and initiatives vary in size, scope, and complexity, so the project management tools shouldn’t be prescribed in a general sense. The important takeaway here is to choose an approach and a tool that works for the culture of the team and the organization and helps the team understand where they are, where they need to go, and what resources are a part of that process.

In managing the team members and interpersonal dynamics, there is the important element of selecting the right team members, shaping the team’s norms and culture (how are decisions made, what are our rules, how do we manage conflict, etc.), and coaching the team. Defining the right skill sets, functions, perspectives, and expertise of the members will ensure a solid foundation. Helping the team to identify and formalize the ground rules for team engagement will help manage in the face of future adversity or team conflict. Finally, playing a role as a supportive coach will help both the individual team members and the group entity think through issues and make progress toward goals. A coach doesn’t solve the individual/team problem but helps the team think through a solution and move forward. Teams may need guidance on how to work things out within the team, and the manager must provide feedback and hold team members accountable for their behavior and contribution. Continuous improvement is the name of the game. A team may not start out as high performing, but they can certainly achieve that goal if everyone is focused on incremental improvements to communication, collaboration, and performance.

? Concept Check

1. Discuss the paradox(es) of a team.
2. How can a leader manage team boundaries?

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12.9: Summary

key terms

knowledge economy
The information society, using knowledge to generate tangible and intangible values

working group
Group of experts working together to achieve specific goals; performance is made up of the individual results of all members

emotional intelligence
The capability of individuals to recognize their own emotions and others' emotions

ground rules
Basic rules or principles of conduct that govern a situation or endeavor

collaboration
The action of working with someone to produce or create something

Forming
The first stage of team development—the positive and polite stage

Storming
The second stage of team development—when people are pushing against the boundaries

Norming
The third stage of team development—when team resolves its differences and begins making progress

Performing
The fourth stage of team development—when hard work leads to the achievement of the team's goal

paradox
A self-contradictory statement or situation

boundaries
Lines that make the limits of an area; team boundaries separate the team from its external stakeholders

mining
To delve in to extract something of value; a technique for generating discussion instead of burying it

real-time permission
A technique for recognizing when conflict is uncomfortable, and giving permission to continue

adaptation
Technique of working with or around differences

structural intervention
Technique of reorganizing to reduce friction on a team

managerial intervention
Technique of making decisions by management and without team involvement

exit

Technique of last resort—removal of a team member

cultural intelligence
A skill that enables individuals to function effectively in cross-cultural environments

cognitive complexity
The ability to view situations from more than one cultural framework

head, body, and heart
Techniques for becoming more adept in cross-cultural skills—learning about cultures (head), physical manifestations of culture (body), and emotional commitment to new culture (heart)

12.1 Teamwork in the Workplace

1. What is a team, and what makes teams effective?

A team is defined as "people organized to function cooperatively as a group." Some of the characteristics of a team are that it has a common commitment and purpose, specific performance goals, complementary skills, commitment to how the work gets done, and mutual accountability.

Some practices that make a team effective are having a sense of urgency and direction, setting clear rules of behavior, spending lots of time together, and utilizing feedback, recognition, and reward.

12.2 Team Development Over Time

2. How do teams develop over time?

Teams go through different stages of team development, coined in 1977 as Tuckman's Stages of Group Development by educational psychologist Bruce Tuckman. Tuckman's model includes these four stages: Forming, Storming, Norming, and Performing. A fifth stage, Adjourning, was added later to explain the disbanding and closure of a team at the end of a project.

Forming begins with team members being happy and polite as they get to know each other and understand the work they'll do together. Storming starts once the work is underway, the team gets to know each other, and conflicts and project stress begin seeping in. During Norming, the team starts to set rules of the road and define how they want to work together. Performing means that the team is underway, having some successes, and gaining traction. This is not a linear process. Teams can regress to earlier stages if there are changes in team members or work orders that cause disruption and loss of momentum and clarity.

12.3 Things to Consider When Managing Teams

3. What are some key considerations in managing teams?

Managing a team is often more complex than people would admit. Although a team and the team leader may be focused on the task or project work, it is actually the people dynamics and how the team works together that make a real difference to the goals and outcomes. Managers must remember that most of their time will be spent managing the people dynamics—not the tasks.

Managing teams also means a certain amount of paradox. A team has individual and collective goals that must be managed effectively. A manager must foster team supportiveness and the ability to engage in conflict and confrontation. A team manager also needs to help the team with its boundaries and act as a buffer, a stakeholder manager, or a strategist when the situation calls for each. Exercising influence with key stakeholder groups external to the project group is one of the most critical team management functions.

12.4 Opportunities and Challenges to Team Building

4. What are the benefits of conflict for a team?

Conflict during team interactions can feel like it derails progress, but it is one of the most important experiences a team can have together. A team that can productively work through conflict will end up stronger, building more trust and being more open to sharing opinions. Team members will feel safe buying in and committing to decision-making as a team.

One of the other key benefits of conflict is that it encourages a greater diversity of ideas and perspectives and helps people better understand opposing points of view. If a team doesn't work through conflict well and feels uncomfortable sharing and debating ideas, it loses the opportunity to vet ideas and potential solutions effectively. The result is that the decision or solution will be limited, as team members haven't fully shared their concerns and perspectives.

12.5 Team Diversity

5. How does team diversity enhance team decision-making and problem-solving?

Decision-making and problem-solving are more dynamic and successful in a diverse team environment. Much like the benefits of conflict, diversity can bring forward opposing points of view and different perspectives and information that might not have been considered if the team were more homogeneous. Diverse teams are thus made "smarter" by bringing together an array of information, sources, and experiences for decision-making.

Other research on diversity indicates that diverse teams excel at decision-making and problem-solving because they focus more on facts. Studies indicate that diverse team members may actually sway the team's behavior to focus more on proven data—possibly because of the prospect of having to explain and back up one's perspectives if a conflict should erupt on the team. In a more homogenous team, there is more risk of "groupthink" and the lack of challenging of ideas.

12.6 Multicultural Teams

6. What are some challenges and best practices for managing and working with multicultural teams?

With the increase in globalization over the years, teams have seen the addition of multicultural individuals who bring their own diverse backgrounds and perspectives to their teams. There are very positive aspects that result from the added diversity, as discussed in the previous questions. There are also challenges we need to be aware of when managing these teams.

Challenges can arise from communication styles and accents but can also appear in the form of decision-making norms and attitudes toward hierarchy. Some team manager interventions are best practices for addressing these challenges. There are also some best practices for building the cultural intelligence that will make the team more adept at understanding and dealing with differences among cultures.

? Chapter Review Questions

1. What are the key differences between a team and a working group?
2. At what stage of team development does the team finally start to see results?
3. What can cause a team to digress to an earlier stage of team development?
4. What can a team leader do to manage the team's boundaries?
5. How does managing conflict help a team learn and grow?
6. What are some strategies to make conflict more productive?
7. Why are diverse teams better at decision-making and problem-solving?
8. Why do diverse teams utilize data more often than homogeneous teams?
9. What are some of the challenges that multicultural teams face?
10. What are the key sources of cultural intelligence?

? Management Skills Application Exercises

1. Do you agree with Katzenbach and Smith's key practices that make teams effective? Why or why not? Which of these practices have you personally experienced? Are there any additional practices that you would add?
2. Have you ever been part of a team that made it through all four stages of team development? In which stage did the team remain the longest? In which stage did the team remain the shortest amount of time? What did you learn?
3. Why do you think managing a team's boundaries is so important? How can external stakeholders impact the function and performance of the team? Why is emotional intelligence such an important skill when managing a team?
4. In your experience, have you ever been in a situation where conflict became a negative thing for a team? How was the conflict handled? How can a team manager ensure that conflict is handled constructively?

5. What is the difference between cultural intelligence and emotional intelligence? How can the cultural intelligence of a team improve performance? Have you ever been on a multicultural team with high cultural intelligence? How about a team low in cultural intelligence? What were the impacts?

? Managerial Decision Exercises

1. You are a manager of a team that is taking a long time to move through the Storming stage. Two team members seem unproductive when dealing with conflict and are holding the team back. What would you do to help the team move through conflict management and begin Norming and Performing?
2. One of your direct reports on your team is very focused on his own personal development. He is a strong employee individually but hasn't had as much experience working in a team environment on a project. He wants to do well but isn't exactly sure how to work within this context. How would you instruct him?
3. You are leading a team responsible for a very important strategic initiative at your company. You have launched the project, and your team is very motivated and excited to move forward. You have the sense, however, that your sponsor and some other stakeholders are not fully engaged. What do you do to engage them?
4. You are the project manager of a cross-functional team project that was just approved. You have been given several good team members from different functions, but many of them think similarly and are unlikely to question each other on team decisions. You have the choice of keeping a homogeneous team that will probably have few team issues or building a diverse team that may well engage in conflict and take much longer to come to decisions. What choice would you make? What other information would you want to know to make the decision?
5. You are the director of a multicultural team with employees across the globe. Your team rarely has the opportunity to meet in person, but you have been given the budget to bring everyone together for a week-long global team meeting and team building. How would you structure the time together? What are some of the activities you would suggest to build stronger relationships among team members?

Critical Thinking Case

Diverse Teams Hold Court

Diverse teams have been proven to be better at problem-solving and decision-making for a number of reasons. First, they bring many different perspectives to the table. Second, they rely more on facts and use those facts to substantiate their positions. Even more interesting is that, according to the *Scientific American* article "How Diversity Makes Us Smarter," simply "being around people who are different from us makes more creative, diligent, and harder-working."

One case in point is the example of jury decision-making, where fact-finding and logical decision-making are of utmost importance. A 2006 study of jury decision-making, led by social psychologist Samuel Sommers of Tufts University, showed that racially diverse groups exchanged a wider range of information during deliberation of a case than all-white groups did. The researcher also conducted mock jury trials with a group of real jurors to show the impact of diversity on jury decision-making.

Interestingly enough, it was the mere presence of diversity on the jury that made jurors consider the facts more, and they had fewer errors recalling the relevant information. The groups even became more willing to discuss the role of race case, when they hadn't before with an all-white jury. This wasn't the case because the diverse jury members brought new information to the group—it happened because, according to the author, the mere presence of diversity made people more open-minded and diligent. Given what we discussed on the benefits of diversity, it makes sense. People are more likely to be prepared, to be diligent, and to think logically about something if they know that they will be pushed or tested on it. And who else would push you or test you on something if not someone who is different from you in perspective, experience, or thinking? "Diversity jolts us into cognitive action in ways that homogeneity simply does not."

So, the next time you are called for jury duty, or to serve on a board committee, or to make an important decision as part of a team, remember that one way to generate a great discussion and come up with a strong solution is to pull together a diverse team.

Critical Thinking Questions

1. If you don’t have a diverse group of people on your team, how can you ensure that you will have robust discussions and decision-making? What techniques can you use to generate conversations from different perspectives?
2. Evaluate your own team at work. Is it a diverse team? How would you rate the quality of decisions generated from that group?

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CHAPTER OVERVIEW

13: Managerial Communication

13.1: Biblical Insight
13.2: Introduction
13.3: The Process of Managerial Communication
13.4: Types of Communications in Organizations
13.5: Factors Affecting Communications and the Roles of Managers
13.6: Managerial Communication and Corporate Reputation
13.7: The Major Channels of Management Communication Are Talking, Listening, Reading, and Writing
13.8: Summary
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13.1: Biblical Insight



Applying the Bible to Business

Colossians 4:6 is powerful in demonstrating wisdom on how to speak to one another. This scripture instructs us, "Let your speech always be gracious, seasoned with salt, so that you may know how you ought to answer each person.” Communication skills are a significant aspect of business. When applying this proverb in a business setting, we are asked to allow our speech to exhibit kindness and understanding to coworkers and customers. In the second part of this proverb, "season words with salt," an example of this is communicating with a positive attitude. Finally, according to the proverb, we are instructed to “always” speak this way.

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13.2: Introduction



Figure 13.1: (Credit: UC Davis College of Engineering/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Learning Objectives

After reading this chapter, you should be able to answer these questions:

1. Understand and describe the communication process.
2. Know the types of communications that occur in organizations.
3. Understand how power, status, purpose, and interpersonal skills affect communications in organizations.
4. Describe how corporate reputations are defined by how an organization communicates to its stakeholders.
5. Know why talking, listening, reading, and writing are vital to managing effectively.

EXPLORING MANAGERIAL CAREERS

John Legere, T-Mobile

The chief executive officer is often the face of the company. They are often the company's North Star, providing guidance and direction for the entire organization. CEOs usually take more reserved and structured approaches with stakeholders such as shareholders, suppliers, regulatory agencies, and customers. One CEO who stands out is John Legere, the CEO of T-Mobile. The unconventional CEO of the self-proclaimed “un-carrier” hosts a Sunday morning podcast called “Slow Cooker Sunday” on Facebook Live. Where CEOs appear on television interviews in standard business attire, Legere appears with shoulder-length hair and is dressed in a magenta T-shirt, black jacket, and pink sneakers. Whereas most CEOs use well-scripted language to address business issues and competitors, Legere refers to T-Mobile’s largest competitors, AT&T and Verizon, as “dumb and dumber.”

In the mobile phone market, T-Mobile is the number-three player competing with giants AT&T and Verizon and recently agreed to merge with Sprint. Of all the consolidation sweeping through the media and telecommunications arena, T-Mobile and Sprint are the most direct competitors. Their merger would reduce the number of national wireless carriers from four to three, a move the Federal Communications Commission has firmly opposed in the past. Then again, the wireless market, as does the administration in power, looks a bit different now.

John Legere and other CEOs such as Mark Cuban, Elon Musk, and Richard Branson have a more public profile than executives at other companies that keep a lower profile and are more guarded in their public comments, often restricting their public statements to quarterly investor and analyst meetings. Likely, the personality and communication style that the executives reveal in public also affect how they relate to their employees. The outgoing personality of someone such as John Legere will motivate some employees, but other employees might see him as too much of a cheerleader.

Sometimes, Legere's unscripted comments and colorful language can cause issues with employees and the public. For instance, some T-Mobile employees in their call center admonished Legere for comments at a press event where he said Verizon and AT&T were “raping” customers for every penny they had. Legere’s comments caused lengthy discussions in online forums such as Reddit about his choice of words. Legere is known for speaking his mind publicly and often uses profanity, but many thought this comment crossed the line. While frank, open communication is usually appreciated and leads to a clearer message, senders of

communications, whether in a public forum, an internal memo, or even a text message, should always think through the consequences of their words.

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We will distinguish between communication between two individuals and communication amongst several individuals (groups) and communication outside the organization. We will show that managers spend a majority of their time in communication with others. We will examine the reasons for communication and discuss the basic model of interpersonal communication, the types of interpersonal communication, and major influences on the communication process. We will also discuss how organizational reputation is defined by communication with stakeholders.

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13.3: The Process of Managerial Communication

Learning Objectives

1. Understand and describe the communication process.

Interpersonal communication is an important part of being an effective manager:

- It influences the opinions, attitudes, motivation, and behaviors of others.
- It expresses our feelings, emotions, and intentions to others.
- It is the vehicle for providing, receiving, and exchanging information regarding events or issues that concern us.
- It reinforces the formal structure of the organization by such means as making use of formal channels of communication.

Interpersonal communication allows employees at all levels of an organization to interact with others, to secure desired results, to request or extend assistance, and to make use of and reinforce the formal design of the organization. These purposes serve not only the individuals involved, but the larger goal of improving the quality of organizational effectiveness.

The model that we present here is an oversimplification of what really happens in communication, but this model will be useful in creating a diagram to be used to discuss the topic. Figure 16.1.1 illustrates a simple communication episode where a communicator encodes a message and a receiver decodes the message (Shannon & Weaver, 1948).

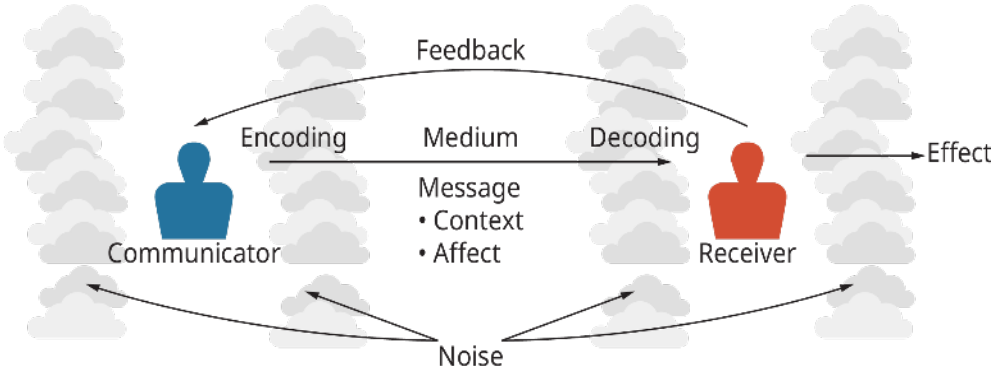


Figure 13.3.1: The Basic Communication Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Encoding and Decoding

Two important aspects of this model are encoding and decoding. Encoding is the process by which individuals initiating the communication translate their ideas into a systematic set of symbols (language), either written or spoken. Encoding is influenced by the sender's previous experiences with the topic or issue, her emotional state at the time of the message, the importance of the message, and the people involved. Decoding is the process by which the recipient of the message interprets it. The receiver attaches meaning to the message and tries to uncover its underlying intent. Decoding is also influenced by the receiver's previous experiences and frame of reference when receiving the message.

Feedback

Several types of feedback can occur after a message is sent from the communicator to the receiver. Feedback can be viewed as the last step in completing a communication episode and may take several forms, such as a verbal response, a nod of the head, a response asking for more information, or no response at all. As with the initial message, the response also involves encoding, medium, and decoding.

Three basic types of feedback occur in communication (Quinn, Faerman, Thompson, McGrath, & Bright, 2015). These are informational, corrective, and reinforcing. In informational feedback, the receiver provides non-evaluative information to the communicator. An example is the level of inventory at the end of the month. In corrective feedback, the receiver responds by challenging the original message. The receiver might respond that it is not her responsibility to monitor inventory. In reinforcing

feedback, the receiver communicates that she has clearly received the message and its intentions. For instance, the grade you receive on a term paper (either positive or negative) reinforces feedback on your term paper (your original communication).

Noise

There is, however, a variety of ways that the intended message can get distorted. Factors that distort message clarity are **noise**. Noise can occur at any point along the model shown in Figure 13.1.1, including the decoding process. For example, a manager might be under pressure and issue a directive, “I want this job completed today, and I don’t care what it costs,” when the manager does care what it costs.

? Concept Check

1. Describe the communication process.
2. Why is feedback a critical part of the communication process?
3. What are some things that managers can do to reduce noise in communication?

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13.4: Types of Communications in Organizations

Learning Objectives

1. Know the types of communications that occur in organizations.

In the communication model described above, three types of communication can be used by either the communicator in the initial transmission phase or the receiver in the feedback phase. These three types are discussed next.

Oral Communication

This consists of all spoken messages or exchanges of information, and it's the most prevalent type of communication.

Written Communication

This includes email, texts, letters, reports, manuals, and annotations on sticky notes. Although managers prefer oral communication for its efficiency and immediacy, the increase in electronic communication is undeniable. Also, some managers prefer written communication for important messages, such as a change in a company policy, where precision of language and documentation of the message are important.

Managerial Leadership

Dealing with Information Overload

One of the challenges in many organizations is dealing with a deluge of emails, texts, voicemails, and other communication. Organizations have become flatter, outsourced many functions, and layered technology to speed communication with integrated communication programs such as Slack, which allows users to manage all their communication and access shared resources in one place. This can lead to information overload, and the volume in your inbox may drown out crucial messages.

Add the practice of "reply to all," which can add to the volume of communication that many coworkers use, and that means that you may get five or six versions of an initial email and need to understand all of the responses as well as the initial communication before responding or deciding that the issue is resolved and no response is needed. Here are suggestions to dealing with email overload upward, horizontally, and downward within your organization and externally to stakeholders and customers.

One way to reduce the volume and the time you spend on email is to turn off the spigot of incoming messages. Some obvious practices help, such as unsubscribing to e-newsletters or turning off notifications from social media accounts such as Facebook and Twitter. Also, consider whether your colleagues or direct reports are copying you on too many emails as an FYI. If yes, explain that you only need to be updated at certain times or when a final decision is made.

You will also want to set up a system that will organize your inbox into "folders" that will allow you to manage the flow of messages into groups that will allow you to address them appropriately. Your system might look something like this:

1. Inbox: Treat this as a holding pen. Emails shouldn't stay here any longer than it takes for you to file them into another folder. The exception is when you respond immediately and await an immediate response.
2. Today: This is for items that need a response today.
3. This week: This is for messages that require a response before the end of the week.
4. This month/quarter: This is for everything that needs a longer-term response. Depending on your role, you may need a monthly or quarterly folder.
5. FYI: This is for any items for information only that you may want to refer back to in the future.

This system prioritizes emails based on timescales rather than the emails' senders, enabling you to better schedule work and set deadlines.

Another thing to consider is your outgoing email. If your outgoing messages are not specific, too long, unclear, or copied too widely, your colleagues will likely follow the same practice when communicating with you. Keep your communication clear and to the point, and managing your outbox will help make your inbound emails manageable.

Critical Thinking Questions

1. How are you managing your emails now? Are you mixing personal, school, and work-related emails in the same account?
2. How would you communicate to a colleague who is sending too many FYI emails, sending too may unclear emails, or copying too many people on her messages?

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Nonverbal Communication

There is also the transformation of information without speaking or writing. Some examples of this are traffic lights and sirens and office size and placement, which connote something or someone of importance. As well, things such as body language and facial expression can convey either conscious or unconscious messages to others.



Figure 13.4.1: Your body language can send messages during a meeting. (Credit: Amtec Photos/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Major Influences on Interpersonal Communication

Regardless of the type of communication involved, several factors can influence the nature, direction, and quality of interpersonal communication processes.[3]

Social Influences

Communication is a social process, as it takes at least two people to have a communication episode. There is a variety of social influences that can affect the accuracy of the intended message. For example, status barriers between employees at different levels of the organization can influence things such as addressing a colleague at a director level as "Ms. Jones" or a coworker at the same level as "Mike." Prevailing norms and roles can dictate who speaks to whom and how someone responds. Figure 13.2.2 illustrates a variety of communications that illustrate social influences in the workplace.

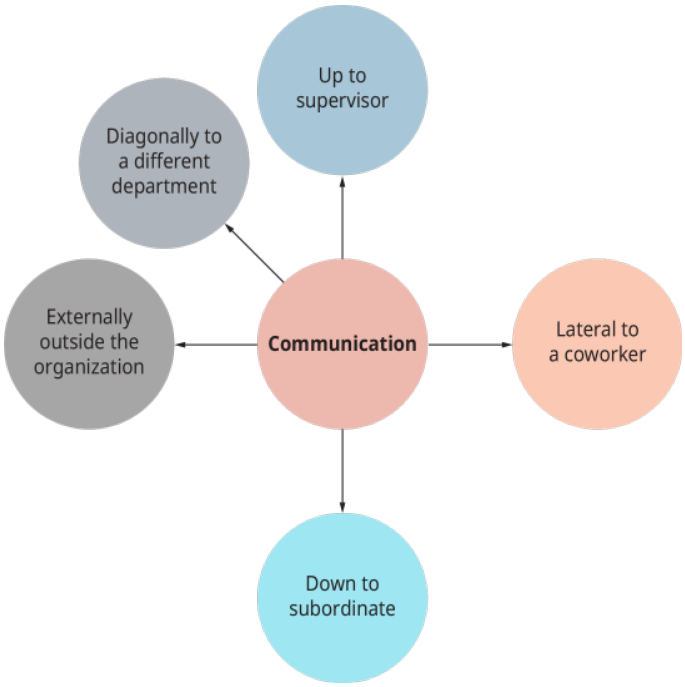


Figure 13.4.2: Patterns of Managerial Communication (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Perception

In addition, the communication process is heavily influenced by perceptual processes. The extent to which an employee accurately receives job instructions from a manager may be influenced by her perception of the manager, especially if the job instructions conflict with her interest in the job or are controversial. If an employee has stereotyped the manager as incompetent, chances are that little that the manager says will be taken seriously. If the boss is well regarded or seen as influential in the company, everything she says may be considered important.

Interaction Involvement

Communication effectiveness can be influenced by the extent to which one or both parties are involved in conversation. This attentiveness is called interaction attentiveness or interaction involvement.[4] If the intended receiver of the message is preoccupied with other issues, the effectiveness of the message may be diminished. Interaction involvement consists of three interrelated dimensions: responsiveness, perceptiveness, and attentiveness.

Organizational Design

The communication process can also be influenced by the design of the organization. It has often been argued that decentralizing an organization will lead to a more participative structure and improve communication. When messages must travel through multiple levels of an organization, distortion can also occur, which more face-to-face communication would reduce.



Figure 13.4.3: Smart managers understand that not all of a company's influential relationships appear in the organization chart. A web of informal, personal connections exists between workers, and vital information and knowledge pass through this web constantly. Using social media analysis software and other tracking tools, managers can map and quantify the normally invisible relationships between employees at all levels of an organization. How might identifying a company's informal organization help managers foster teamwork, motivate employees, and boost productivity? (Credit: Exeter/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

? Concept Check

1. What are the three major types of communication?
2. How can you manage the inflow of electronic communication?
3. What are the major influences on organizational communication, and how can organizational design affect communication?

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13.5: Factors Affecting Communications and the Roles of Managers

Learning Objectives

1. Understand how power, status, purpose, and interpersonal skills affect communications in organizations.

The Roles Managers Play

Mintzberg's seminal study of managers and their jobs found most of them clustered around three core management roles (Mintzberg, 1973).

Interpersonal Roles

Managers are required to interact with many people during a workweek. They host receptions; take clients and customers to dinner; meet with business prospects and partners; conduct hiring and performance interviews; and form alliances, friendships, and personal relationships with many others. Numerous studies have shown that such relationships are the richest source of information for managers because of their immediate and personal nature (Mintzberg, 1973).

Three manager roles arise directly from formal authority and involve basic interpersonal relationships. First is the figurehead role. As the head of an organizational unit, every manager must perform ceremonial duties. In Mintzberg's study, chief executives spent 12% of their contact time on ceremonial duties; 17% of their incoming mail dealt with acknowledgments and requests related to their status. One example is a company president who requested free merchandise for a handicapped schoolchild.[7]

Managers are also responsible for the work of the people in their unit, and their actions are directly related to their role as a leader. The influence of managers is most clearly seen, according to Mintzberg, in the leader role. Formal authority vests them with great potential power. Leadership determines, in large part, how much power they will realize.

Does the leader's role matter? Ask the employees of Chrysler Corporation (now Fiat Chrysler). When Sergio Marchionne, who passed away in 2018, took over the company in the wake of the financial crisis, the once-great auto manufacturer was in bankruptcy, teetering on the verge of extinction. He formed new relationships with the United Auto Workers, reorganized the company's senior management, and—perhaps most importantly—convinced the U.S. federal government to guarantee a series of bank loans that would make the company solvent again. The loan guarantees, the union response, and the reaction of the marketplace, especially for the Jeep brand, were largely due to Marchionne's leadership style and charisma. More recent examples include the return of Starbucks founder Howard Schultz to reenergize and steer his company and Amazon CEO Jeff Bezos and his ability to innovate during an economic downturn (McGregor, 2008).

Popular management literature has had little to say about the liaison role until recently. This role, in which managers establish and maintain contacts outside the vertical chain of command, becomes especially important given the finding of virtually every study of managerial work that managers spend as much time with peers and other people outside of their units as they do with their own subordinates. Surprisingly, they spend little time with their own superiors. In Rosemary Stewart's (1967) study, 160 British middle and top managers spent 47% of their time with peers, 41% with people inside their unit, and only 12% with superiors. Guest's (1956) study of U.S. manufacturing supervisors revealed similar findings.

Informational Roles

Managers are required to gather, collate, analyze, store, and disseminate many kinds of information. In doing so, they become information resource centers, often storing huge amounts of information in their own heads, moving quickly from the role of gatherer to the role of disseminator in minutes. Although many business organizations install large, expensive management information systems to perform many of those functions, nothing can match the speed and intuitive power of a well-trained manager's brain for information processing. Not surprisingly, most managers prefer it that way.

As monitors, managers are constantly scanning the environment for information, talking with liaison contacts and subordinates, and receiving unsolicited information because of their network of personal contacts. Much of this information arrives verbally, often as gossip, hearsay, and speculation (Mintzberg, 1990).

In the disseminator role, managers pass privileged information directly to subordinates, who might otherwise have no access to it. Managers must decide not only who should receive such information, but how much of it, how often, and in what form. Increasingly, managers are being asked to decide whether subordinates, peers, customers, business partners, and others should have direct access to information 24 hours a day without contacting the manager directly (Mintzberg, 1990).

In the spokesperson role, managers send information to people outside their organizations: an executive makes a speech to lobby for an organizational cause, or a supervisor suggests a product modification to a supplier. Managers are increasingly being asked to deal with representatives of the news media, providing factual and opinion-based responses that will be printed or broadcast to vast, unseen audiences, often directly or with little editing. The risks in such circumstances are enormous, but so too are the potential rewards for brand recognition, public image, and organizational visibility (Mintzberg, 1990).

Decisional Roles

Ultimately, managers are responsible for making decisions on behalf of the organization and the stakeholders with an interest in it. Such decisions are often made in circumstances of high ambiguity and with inadequate information. The other two managerial roles—interpersonal and informational—will often assist a manager in making difficult decisions in which outcomes are unclear and interests are often conflicting.

In the role of entrepreneur, managers seek to improve their businesses, adapt to changing market conditions, and react to opportunities as they present themselves. Managers who take a longer-term view of their responsibilities are among the first to realize that they will need to reinvent themselves, their product and service lines, their marketing strategies, and their ways of doing business as older methods become obsolete and competitors gain advantage.

While the entrepreneur role describes managers who initiate change, the disturbance or crisis handler role depicts managers who must involuntarily react to conditions. Crises can arise because bad managers let circumstances deteriorate or spin out of control, but just as often, good managers find themselves in the midst of a crisis that they could not have anticipated but must react to just the same (Mintzberg, 2007).

The third decisional role of resource allocator involves managers making decisions about who gets what, how much, when, and why. Resources, including funding, equipment, human labor, office or production space, and even the boss's time, are all limited, and demand inevitably outstrips supply. Managers must make sensible decisions about such matters while still retaining, motivating, and developing the best of their employees.

The final decisional role is that of negotiator. Managers spend considerable time in negotiations: over budget allocations, labor and collective bargaining agreements, and other formal dispute resolutions. During a week, managers will often make dozens of decisions resulting from brief but important negotiations between and among employees, customers and clients, suppliers, and others with whom managers must deal (Mintzberg, 1990).

? Concept Check

1. What are the major roles that managers play in communicating with employees?
2. Why are negotiations often brought into communications by managers?

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13.6: Managerial Communication and Corporate Reputation

Learning Objectives

1. Describe how corporate reputations are defined by how an organization communicates to its stakeholders.

Management communication is a central discipline in the study of communication and corporate reputation. An understanding of language and its inherent powers, combined with the skill to speak, write, listen, and form interpersonal relationships, will determine whether companies succeed or fail and whether they are rewarded or penalized for their reputations.

At the midpoint of the twentieth century, Peter Drucker wrote, “Managers have to learn to know language, to understand what words are and what they mean. Perhaps most important, they have to acquire respect for language as [our] most precious gift and heritage. The manager must understand the meaning of the old definition of rhetoric as ‘the art which draws men’s hearts to the love of true knowledge” (Drucker, 1954).

Later, Eccles and Nohria reframed Drucker’s view to offer a perspective of management that few others have seen: “To see management in its proper light, managers need first to take language seriously” (Eccles & Noria, 1992). In particular, they argue, a coherent view of management must focus on three issues: the use of rhetoric to achieve a manager’s goals, the shaping of a managerial identity, and taking action to achieve the goals of the organizations that employ us. Above all, they say, “the essence of what management is all about [is] the effective use of language to get things done” (Eccles & Noria, 1992). One of the things managers get done is the creation, management, and monitoring of corporate reputation.

The job of becoming a competent, effective manager thus becomes one of understanding language and action. It also involves finding ways to shape how others see and think of *you* in *your* role as a manager. Many noted researchers have examined the important relationship between communication and action within large and complex organizations and conclude that the two are inseparable. Without the right words, used in the right way, it is unlikely that the right reputations develop. “Words do matter,” write Eccles and Nohria. “They matter very much. Without words, we have no way of expressing strategic concepts, structural forms, or designs for performance measurement systems.” Language, they conclude, “is too important to managers to be taken for granted or, even worse, abused” (Eccles & Noria, 1992).

So, if language is a manager’s key to corporate reputation management, the next question is obvious: How good are managers at using language? Managers’ ability to act—to hire a talented workforce, to change an organization’s reputation, to launch a new product line—depends entirely on how effectively they use management communication, both as a speaker and as a listener. Managers’ effectiveness as speakers and writers will determine how well they can manage the firm’s reputation. And their effectiveness as listeners will determine how well they understand and respond to others and can change the organization in response to their feedback.

We will now examine the role management communication plays in corporate reputation formation, management, and change and the position occupied by rhetoric in the life of business organizations. This chapter will focus on the skills, abilities, and competencies for using language, attempting to influence others, and responding to the requirements of peers, superiors, stakeholders, and the organization in which managers and employees work.

Management communication is about the movement of information and the skills that facilitate it—speaking, writing, listening, and critical thinking processes. It’s also about understanding who your organization is (identity), who others think your organization is (reputation), and the contributions individuals can make to the success of their business, considering their organization’s existing reputation. It is also about confidence—the knowledge that one can speak and write well, listen with great skill as others speak, and seek out and provide the feedback essential to creating, managing, or changing their organization’s reputation.

At the heart of this chapter, though, is the notion that communication, in many ways, is the work of managers. We will now examine the roles of writing and speaking in the role of management, as well as other specific applications and challenges managers face as they play their role in the creation, maintenance, and change of corporate reputation.

Concept Check

1. How are corporate reputations affected by the communication of managers and public statements?
2. Why is corporate reputation important?

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13.7: The Major Channels of Management Communication Are Talking, Listening, Reading, and Writing

Learning Objective

1. Know why talking, listening, reading, and writing are vital to managing effectively.

The major channels of managerial communication displayed in Figure 13.5.1_are talking, listening, reading, and writing. Among these, talking is the predominant communication method, but as e-mail and texting increase, reading and writing are also increasing. Managers across industries, according to Deirdre Borden, spend about 75% of their time in verbal interaction. Those daily interactions include the following.

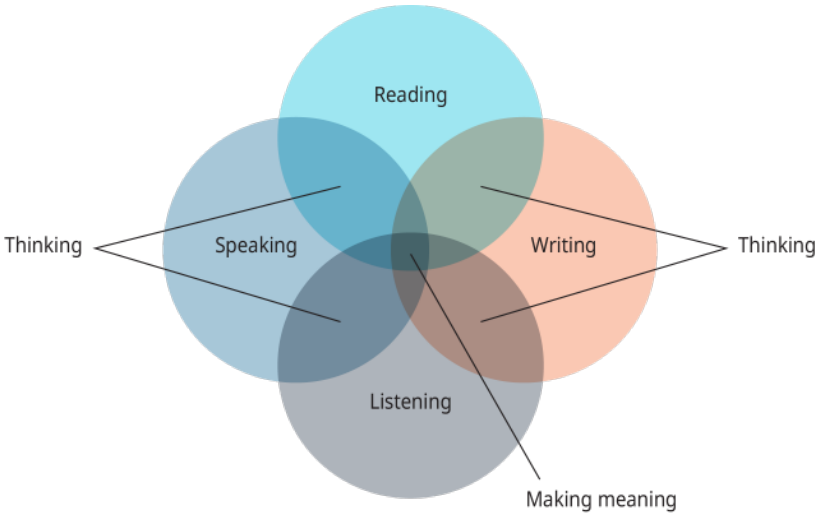


Figure 13.7.1: Reading, Writing, Speaking, and Listening: How They Help in Creating Meaning (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

One-on-One Conversations

Increasingly, managers find that information is passed orally, often face-to-face in offices, hallways, conference rooms, cafeterias, restrooms, athletic facilities, parking lots, and dozens of other venues. An enormous amount of information is exchanged, validated, confirmed, and passed back and forth under highly informal circumstances.

Telephone Conversations

Managers spend an astounding amount of time on the telephone these days. Curiously, the amount of time per telephone call is decreasing, but the number of calls per day is increasing. With the nearly universal availability of cellular and satellite telephone service, very few people are out of reach of the office for very long. The decision to switch off a cellular telephone, in fact, is now considered a decision in favor of work-life balance.

Video Teleconferencing

Bridging time zones as well as cultures, videoconferencing facilities make direct conversations with employees, colleagues, customers, and business partners across the nation or around the world a simple matter. Carrier Corporation, the air-conditioning manufacturer, is now typical of firms using desktop videoconferencing to conduct everything from staff meetings to technical training. Engineers at Carrier's Farmington, Connecticut, headquarters can hook up with service managers in branch offices thousands of miles away to explain new product developments, demonstrate repair techniques, and update field staff on matters that would, just recently, have required extensive travel or expensive, broadcast-quality television programming. Their exchanges are informal, conversational, and not much different than if the people were in the same room (Ziegler, 1994).

Presentations to Small Groups

Managers frequently find themselves making formal and informal presentations to groups of three to eight people for many different reasons: passing along information given to them by executives, reviewing the status of projects in process, and explaining changes in everything from working schedules to organizational goals. Such presentations are sometimes supported by overhead transparencies or printed outlines, but they are oral in nature and retain much of the conversational character of one-to-one conversations.

Public Speaking to Larger Audiences

Most managers cannot escape the periodic requirement to speak to larger audiences of several dozen or, perhaps, several hundred people. Such presentations are usually more formal in structure and are often supported by PowerPoint or Prezi software that can deliver data from text files, graphics, photos, and even motion clips from streaming video. Despite the more formal atmosphere and sophisticated audio-visual support systems, such presentations still involve one manager talking to others, framing, shaping, and passing information to an audience.

A series of scientific studies, beginning with Rankin (1952), Nichols and Stevens (1957), and Wolvin and Coakley (1982), confirm: most managers spend the largest portion of their day talking and listening. Werner's (1975) thesis, in fact, found that North American adults spend more than 78% of their communication time either talking or listening to others who are talking.

According to Werner and others who study the communication habits of postmodern business organizations, managers are involved in more than just speeches and presentations from the dais or teleconference podium. They spend their days in meetings, on the telephone, conducting interviews, giving tours, supervising informal visits to their facilities, and at a wide variety of social events (Kotter, 1999).



Figure 13.7.2: Public speaking is often a terrifying but crucial skill for managers. (Credit: Mike Mozart/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Each of these activities may look to some managers like an obligation imposed by the job. Shrewd managers see them as opportunities to hear what others are thinking, to gather information informally from the grapevine, to listen in on office gossip, to pass along viewpoints that haven't yet made their way to the more formal channels of communication, or to catch up with a colleague or friend in a more relaxed setting. No matter what the intention of each manager who engages in these activities, the information they produce and the insight that follows from them can be put to work the same day to achieve organizational and personal objectives. "To understand why effective managers behave as they do," writes Kotter, "it is essential first to recognize two fundamental challenges and dilemmas found in most of their jobs." Managers must first figure out what to do, despite an enormous amount of potentially relevant information (along with much that is not), and then they must get things done "through a large and diverse group of people despite having little direct control over most of them" (Berger & Luckmann, 1966).

The Role of Writing

Writing plays an important role in the life of any organization. In some organizations, it becomes more important than in others. At Procter & Gamble, for example, brand managers cannot raise a work-related issue in a team meeting unless the ideas are first circulated in writing. For P&G managers, this approach means explaining their ideas in explicit detail in a standard one-to-three-page memo, complete with background, financial discussion, implementation details, and justification for the ideas proposed.

Other organizations are more oral in their traditions—3M Canada is a “spoken” organization—but the fact remains: the most important projects, decisions, and ideas end up in writing. Writing also provides analysis, justification, documentation, and analytic discipline, particularly as managers approach important decisions that will affect the profitability and strategic direction of the company.

Writing is a career sifter. If managers demonstrate their inability to put ideas on paper clearly and unambiguously, they’re not likely to last. Stories of bad writers who’ve been shown the door early in their careers are legion. Managers’ principal objective, at least during the first few years of their careers, is to keep their name out of such stories. Remember: those most likely to notice the quality and skill in managers’ written documents are the very people most likely to matter to managers’ future.

Managers do most of their own writing and editing. The days when managers could lean back and thoughtfully dictate a letter or memo to a skilled secretarial assistant are mostly gone. Some senior executives know how efficient dictation can be, especially with a top-notch administrative assistant taking shorthand, but how many managers have that advantage today? Very few, mostly because buying a computer and printer is substantially cheaper than hiring another employee. Managers at all levels of most organizations draft, review, edit, and dispatch their own correspondence, reports, and proposals.

Documents take on lives of their own. Once it’s gone from the manager’s desk, it isn’t theirs anymore. When they sign a letter and put it in the mail, it’s no longer their letter—it’s the property of the person or organization it was sent to. As a result, the recipient is free to do as she sees fit with the writing, including using it against the sender. If the ideas are ill-considered or not well expressed, others in the organization who are not especially sympathetic to the manager’s views may head for the copy machine with the manager’s work in hand. The advice for managers is simple: do not mail the first draft, and do not ever sign your name to a document you are not proud of.

Communication Is Invention

Without question, communication is a process of invention. Managers literally create meaning through communication. A company, for example, is not in default until a team of auditors sits down to examine the books and review the matter. Only after extended discussion do the accountants conclude that the company is, in fact, in default. It is their discussion that creates the outcome. Until that point, default was simply one of many possibilities.

The fact is managers create meaning through communication. It is largely through discussion and verbal exchange—often heated and passionate—that managers decide who they wish to be: market leaders, takeover artists, innovators, or defenders of the economy. It is only through communication that meaning is created for shareholders, employees, customers, and others. Those long, detailed, and intense discussions determine how much the company will declare in dividends this year, whether the company is willing to risk a strike or labor action, and how soon to roll out the new product line customers are asking for. Additionally, it is important to note that managers usually figure things out by talking about them as much as they talk about the things they have already figured out. Talk serves as a wonderful palliative: justifying, analyzing, dissecting, reassuring, and analyzing the events that confront managers each day.

Information Is Socially Constructed

If we are to understand just how important human discourse is in the life of a business, several points seem especially important.

Information is created, shared, and interpreted by people. Meaning is a truly human phenomenon. An issue is only important if people think it is. Facts are facts only if we can agree upon their definition. Perceptions and assumptions are as important as truth itself in a discussion about what a manager should do next (Larkin & Larkin, 1994). Information never speaks for itself. It is not uncommon for a manager to rise to address a group of her colleagues and say, “The numbers speak for themselves.” Frankly, the numbers never speak for themselves. They almost always require some interpretation, some sort of explanation or context. Do not assume that others see the facts in the same way managers do, and never assume that what is seen is the truth. Others may see the same facts or evidence but not reach the same conclusions. Few things in life are self-explanatory.

Context always drives meaning. The backdrop to a message is paramount to the listener, viewer, or reader in reaching a reasonable, rational conclusion about what she sees and hears. What’s in the news these days as we take up this subject? What moment in history do we occupy? What related or relevant information is under consideration as this new message arrives? We cannot derive meaning from one message without considering everything else surrounding it.

A messenger always accompanies a message. It is difficult to separate a message from its messenger. We often want to react more to the source of the information than we do to the information itself. That's natural and entirely normal. People speak for a reason, and we often judge their reasons for speaking before analyzing what they have to say. Keep in mind that, in every organization, message recipients will judge the value, power, purpose, intent, and outcomes of the messages they receive by the source of those messages as much as by the content and intent of the messages themselves. If the messages managers send are to have the impact hoped for, they must come from a source the receiver knows, respects, and understands.

Managers' Greatest Challenge

Every manager knows communication is vital, but every manager also seems to "know" that she is great at it. Managers' greatest challenge is admitting flaws in their skill set and working tirelessly to improve them. First, managers must admit to the flaws.

Larkin and Larkin write, "Deep down, managers believe they are communicating effectively. In ten years of management consulting, we have never had a manager say to us that he or she was a poor communicator. They admit to the occasional screw-up, but overall, everyone, without exception, believes he or she is basically a good communicator" (Larkin & Larkin, 1994).

Managers' Task as Professionals

As a professional manager, the first task is recognizing and understanding one's strengths and weaknesses as a communicator. Until these communication tasks at which one is most and least skilled are identified, there will be little opportunity for improvement and advancement.

Foremost among managers' goals should be to improve existing skills. Improve one's ability to do what is done best. Be alert to opportunities, however, to develop new skills. Managers should add to their inventory of abilities to keep themselves employable and promotable.

Two other suggestions come to mind for improving managers' professional standing. First, acquire a knowledge base that will work for the years ahead. That means speaking with and listening to other professionals in their company, industry, and community. They should be alert to trends that could affect their company's products and services and their own future.

It also means reading. Managers should read at least one national newspaper each day, such as the *Wall Street Journal*, the *New York Times*, or the *Financial Times*, as well as a local newspaper. Their reading should include weekly news magazines, such as *U.S. News & World Report, Bloomberg's Business Week*, and the *Economist*. Subscribe to monthly magazines such as *Fast Company* and *Fortune*. And they should read at least one new hardcover title a month. A dozen books each year is the bare minimum on which one should depend for new ideas, insights, and managerial guidance.

Managers' final challenge is to develop the confidence needed to succeed as a manager, particularly under conditions of uncertainty, change, and challenge.

ETHICS IN PRACTICE

Disney and H-1B Visas

On January 30, 2015, The Walt Disney Company laid off 250 of its IT workers. In a letter to the laid-off workers, Disney outlined the conditions for receipt of a "stay bonus," which would entitle each worker to a lump-sum payment of 10% of their annual salary.

Of course, there was a catch. Only those workers who trained their replacements over a 90-day period would receive the bonus. One American worker in his 40s who agreed to Disney's severance terms explained how it worked in action:

> *"The first 30 days was all capturing what I did. The next 30 days, they worked side by side with me, and the last 30 days, they took over my job completely. I had to make sure they were doing my job correctly."*

To outside observers, this added insult to injury. It was bad enough to replace U.S. workers with cheaper, foreign labor. But to ask, let alone strong-arm, the laid-off workers into training their replacements seemed a bit much.

However unfortunate, layoffs are commonplace. But this was different. From the timing to the apparent neglect of employee pride, the sequence of events struck a nerve. For many, the issue was simple, and Disney's actions seemed wrong at a visceral level. As

criticism mounted, it became clear that this story would develop legs. Disney had a problem.

For David Powers and Leo Perrero, each a 10-year information technology (IT) veteran at Disney, the invitation came from a vice president of the company. It had to be good news, the men thought. After all, they were not far removed from strong performance reviews—perhaps they would be awarded performance bonuses. Well, not exactly. Leo Perrero, one of the summoned workers, explains what happened next.

"I'm in the room with about two-dozen people, and very shortly thereafter, an executive delivers the news that all of our jobs are ending in 90 days, and that we have 90 days to train our replacements or we won't get a bonus that we've been offered."

Powers explained the deflating effect of the news: "When a guillotine falls down on you, in that moment you're dead . . . and I was dead."

These layoffs and the hiring of foreign workers under the H-1B program lay at the center of this issue. Initially introduced by the Immigration and Nationality Act of 1965, subsequent modifications produced the current iteration of the H-1B visa program in 1990. Importantly, at that time, the United States faced a shortage of skilled workers necessary to fill highly technical jobs. Enter the H-1B visa program as the solution. This program permits U.S. employers to temporarily employ foreign workers in highly specialized occupations. "Specialty occupations" are defined as those in the fields of architecture, engineering, mathematics, science, medicine, and others that require technical and skilled expertise.

Congress limited the number of H-1B visas issued to 85,000 per year. That total is divided into two subcategories: "65,000 new H-1B visas issued for overseas workers in professional or specialty occupation positions, and an additional 20,000 visas available for those with an advanced degree from a U.S. academic institution." Further, foreign workers are not able to apply for an H-1B visa. Instead, a U.S. employer must petition on their behalf no earlier than six months before the starting date of employment.

To be eligible for an employer to apply a foreign worker for an H-1B visa, the worker needed to meet certain requirements, such as an employee-employer relationship with the petitioning U.S. employer and a position in a specialty occupation related to the employee's field of study, where the employee must meet one of the following criteria: a bachelor's degree or the foreign equivalent of a bachelor's degree, a degree that is standard for the position, or previous qualified experience within the specialty occupation.

If approved, the initial term of the visa is three years, which may be extended an additional three years. While residing in the United States on an H-1B visa, a worker may apply to become a permanent resident and receive a green card, which would entitle the worker to remain indefinitely.

U.S. employers are required to file a Labor Condition Application (LCA) on behalf of each foreign worker they seek to employ. That application must be approved by the U.S. Department of Labor. The LCA requires the employer to assure that the foreign worker will be paid a wage and be provided working conditions and benefits that meet or exceed the local prevailing market and to assure that the foreign worker will not displace a U.S. worker in the employer's workforce.

Given these representations, U.S. employers have increasingly been criticized for abuse of the H-1B program. Most significantly, there is rising sentiment that U.S. employers are displacing domestic workers in favor of cheaper foreign labor. Research indicates that a U.S. worker's salary for these specialty occupations often exceeds $100,000, while that of a foreign worker is roughly $62,000 for the very same job. The latter figure is telling, since $60,000 is the threshold below which a salary would trigger a penalty.

Disney faced huge backlash and negative press because of the layoffs and hiring of foreign workers. Because of this, Disney had communication challenges, both internally and externally.

Disney executives framed the layoffs as part of a larger plan of reorganization intended to enable its IT division to focus on driving innovation. Walt Disney World spokesperson Jacquee Wahler gave the following explanation:

> *"We have restructured our global technology organization to significantly increase our cast member focus on future innovation and new capabilities, and are continuing to work with leading technical firms to maintain our existing systems as needed." (Italics added for emphasis.)*

That statement is consistent with a leaked memo drafted by Disney Parks and Resort CIO Tilak Mandadi, which he sent to select employees on November 10, 2014 (not including those who would be laid off), to explain the rationale for the impending layoffs. The memo read, in part, as follows:

> *"To enable a majority of our team to shift focus to new capabilities, we have executed five new managed services agreements to support testing services and application maintenance. Last week, we began working with both our internal subject matter experts and the suppliers to start transition planning for these agreements. We expect knowledge transfer to start later this month and last through January. Those Cast Members who are involved will be contacted in the next several weeks."*

Responding to the critical *New York Times* article, Disney represented that when all was said and done, the company had in fact produced a net jobs increase. According to Disney spokesperson Kim Prunty:

> *"Disney has created almost 30,000 new jobs in the U.S. over the past decade, and the recent changes to our parks' IT team resulted in a larger organization with 70 additional in-house positions in the U.S. External support firms are responsible for complying with all applicable employment laws for their employees."*

New jobs were promised due to the restructuring, Disney officials said, and employees targeted for termination were pushed to apply for those positions. According to a confidential Disney source, of the approximately 250 laid-off employees, 120 found new jobs within Disney, 40 took early retirement, and 90 were unable to secure new jobs with Disney.

On June 11, 2015, Senator Richard Durbin of Illinois and Senator Jeffrey Sessions of Alabama released a statement regarding a bipartisan letter issued to the attorney general, the Department Homeland Security, and the Department of Labor.

> *"A number of U.S. employers, including some large, well-known, publicly-traded corporations, have laid off thousands of American workers and replaced them with H-1B visa holders . . . . To add insult to injury, many of the replaced American employees report that they have been forced to train the foreign workers who are taking their jobs. That's just plain wrong and we'll continue to press the Administration to help solve this problem."*

In response to request for comment on the communications issues raised by the Disney layoffs and aftermath, *New York Times* columnist Julia Preston shared the following exclusive analysis:

> *"I would say Disney's handling of those lay-offs is a case study in how **not** to do things. But in the end it's not about the communications, it's about the company. Those layoffs showed a company that was not living up to its core vaunted family values and no amount of shouting by their communications folks could change the facts of what happened."*

? Questions for Discussion

1. Is it ethical for U.S. companies to lay off workers and hire foreign workers under the H-1B program? Should foreign countries restrict the hiring of foreign workers that meet their workforce requirements?
2. Discuss the internal and external communications that Disney employed in this situation. The examples here are of the formal written communications. What should Disney have been communicating verbally to their employees and externally?

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Concept Check

1. What are the four components of communication discussed in this section?
2. Why is it important to understand your limitations in communicating to others and in larger groups?
3. Why should managers always strive to improve their skills?

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13.8: Summary

Key Terms

communicator
The individual, group, or organization that needs or wants to share information with another individual, group, or organization.

decoding
Interpreting and understanding and making sense of a message.

encoding
Translating a message into symbols or language that a receiver can understand.

noise
Anything that interferes with the communication process.

receiver
The individual, group, or organization for which information is intended.

interaction attentiveness/ interaction involvement
A measure of how the receiver of a message is paying close attention and is alert or observant.

figurehead role
A necessary **role** for a manager who wants to inspire people within the organization to feel connected to each other and to the institution, to support the policies and decisions made on behalf of the organization, and to work harder for the good of the institution.

The Process of Managerial Communication

13.1 Understand and describe the communication process.

The basic model of interpersonal communication consists of an encoded message, a decoded message, feedback, and noise. Noise refers to the distortions that inhibit message clarity.

Types of Communications in Organizations

13.2 Know the types of communications that occur in organizations.

Interpersonal communication can be oral, written, or nonverbal. Body language refers to conveying messages to others through such techniques as facial expressions, posture, and eye movements.

Factors Affecting Communications and the Roles of Managers

13.3 Understand how power, status, purpose, and interpersonal skills affect communications in organizations.

Interpersonal communication is influenced by social situations, perception, interaction involvement, and organizational design. Organizational communication can travel upward, downward, or horizontally. Each direction of information flow has specific challenges.

Managerial Communication and Corporate Reputation

13.4 Describe how corporate reputations are defined by how an organization communicates to all of its stakeholders.

It is important for managers to understand what your organization stands for (identity), what others think your organization is (reputation), and the contributions individuals can make to the success of the business considering their organization's existing

reputation. It is also about confidence—the knowledge that one can speak and write well, listen with great skill as others speak, and both seek out and provide the feedback essential to creating, managing, or changing their organization's reputation.

The Major Channels of Management Communication Are Talking, Listening, Reading, and Writing

13.5 Describe the roles that managers perform in organizations.

There are special communication roles that can be identified. Managers may serve as gatekeepers, liaisons, or opinion leaders. They can also assume some combination of these roles. It is important to recognize that communication processes involve people in different functions and that all functions need to operate effectively to achieve organizational objectives.

? Chapter Review Questions

1. Describe the communication process.
2. Why is feedback a critical part of the communication process?
3. What are some things that managers can do to reduce noise in communication?
4. Compare and contrast the three primary forms of interpersonal communication.
5. Describe the various individual communication roles in organizations.
6. How can managers better manage their effectiveness by managing e-mail communication?
7. Which communication roles are most important in facilitating managerial effectiveness?
8. Identify barriers to effective communication.
9. How can barriers to effective communication be overcome by managers?

? Management Skills Application Exercises

1. The e-mails below are not written as clearly or concisely as they could be. In addition, they may have problems in organization or tone or mechanical errors. Rewrite them so they are appropriate for the audience and their purpose. Correct grammatical and mechanical errors. Finally, add a subject line to each.

> **E-Mail 1**
>
> *To: Employees of The Enormously Successful Corporation*
>
> *From: CEO of The Enormously Successful Corporation*
>
> *Subject:*
>
> *Stop bringing bottled soft drinks, juices and plastic straws to work. Its an environment problem that increases our waste and the quality of our water is great. People don't realize how much wasted energy goes into shipping all that stuff around, and plastic bottles, aluminum cans and straws are ruining our oceans and filling land fills. Have you seen the floating island of waste in the Pacific Ocean? Some of this stuff comes from other countries like Canada Dry I think is from canada and we are taking there water and Canadians will be thirsty. Fancy drinks isn't as good as the water we have and tastes better anyway.*

> **E-Mail 2**
>
> *To: All Employees*
>
> *From: Management*
>
> *Subject:*

> *Our Committee to Improve Inter-Office Communication has decided that there needs to be an update and revision of our policy on emailing messages to and from those who work with us as employees of this company. The following are the results of the committee's decisions, and constitute recommendations for the improvement of every aspect of email communication.*
>
> 1. *Too much wordiness means people have to read the same thing over and over repeatedly, time after time. Eliminating unnecessary words, emails can be made to be shorter and more to the point, making them concise and taking less time to read.*
> 2. *You are only allowed to send and receive messages between 8:30 AM east coat time and 4:30 PM east coast time. You are also not allowed to read e-mails outside of these times. We know that for those of you on the west coast or traveling internationally it will reduce the time that you are allowed to attend to e-mail, but we need this to get it under control.*
> 3. *You are only allowed to have up to 3 recipients on each e-mail. If more people need to be informed it is up to the people to inform them.*

2. Write a self-evaluation that focuses specifically on your class participation in this course. Making comments during class allows you to improve your ability to speak extemporaneously, which is exactly what you will have to do in all kinds of business situations (e.g., meetings, asking questions at presentations, one-on-one conversations). Thus, write a short memo (two or three paragraphs) in which you describe the frequency with which you make comments in class, the nature of those comments, and what is easy and difficult for you when it comes to speaking up in class.

   If you have made few (or no) comments during class, this is a time for us to come up with a plan to help you overcome your shyness. Our experience is that as soon as a person talks in front of a group once or twice, it becomes much easier—so we need to come up with a way to help you break the ice.

   Finally, please comment on what you see as the strengths and weaknesses of your discussions and presentations in this class.

3. Refer to the photo in Figure 13.2.1. Comment on the body language exhibited by each person at the meeting and how engaged they are in the communication.
4. In the movie *The Martian*, astronaut Mark Watney (played by Matt Damon) is stranded on Mars with limited ability to communicate with mission control. Watney holds up questions to a camera that can transmit photographs of his questions, and mission control could respond by pointing the camera at a "yes" or "no" card with the camera. Eventually, they are able to exchange "text" messages but no voice exchanges. Also, there is a significant time delay between the sending and receipt of the messages. Which part of the communication process would have to be addressed to ensure that the encoding of the messages, the decoding of the messages, and that noise is minimized by Watney and mission control?

? Managerial Decision Exercises

1. Ginni Rometty is the CEO of IBM. Shortly after taking on the role of CEO and being frustrated by the progress and sales performance, Rometty released a five-minute video to all 400,000 plus IBM employees criticizing the lack of securing deals to competitors and lashed out at the sales organization for poor sales in the preceding quarter. Six months later, Rometty sent another critical message, this time via e-mail. How effective will the video and e-mail be in communicating with employees? How should she follow up on these messages?
2. Social media, such as Facebook, is now widespread. Place yourself as a manager that has just received a "friend" request from one of your direct reports. Do you accept, reject, or ignore the request? Why, and what additional communication would you have regarding this with the employee?

3. During a cross-functional meeting, one of the attendees who reports to a manager who is also at the meeting accuses one of your reports of not being fit for the position she is in. You disagree and feel that your report is a good fit for her role. How do you handle this?

Critical Thinking Case

Facebook, Inc.

Facebook has been in the news with criticism of its privacy policies, sharing customer information with Fusion GPS, and criticism regarding the attempts to influence the 2016 election. In March 2014, Facebook released a study entitled "Experimental evidence of massive-scale emotional contagion through social networks." It was published in the *Proceedings of the National Academy of Sciences (PNAS)*, a prestigious, peer-reviewed scientific journal. The paper explains how social media can readily transfer emotional states from person to person through Facebook's News Feed platform. Facebook conducted an experiment on members to see how people would respond to changes in a percentage of both positive and negative posts. The results suggest that emotional contagion does occur online and that users' positive expressions can generate positive reactions, while, in turn, negative expressions can generate negative reactions.

Facebook has two separate value propositions aimed at two different markets with entirely different goals.

Originally, Facebook's main market was its end users—people looking to connect with family and friends. At first, it was aimed only at college students at a handful of elite schools. The site is now open to anyone with an Internet connection. Users can share status updates and photographs with friends and family. And all of this comes at no cost to the users.

Facebook's other major market is advertisers, who buy information about Facebook's users. The company regularly gathers data about page views and browsing behavior of users in order to display targeted advertisements to users for the benefit of its advertising partners.

The value proposition of the Facebook News Feed experiment was to determine whether emotional manipulation would be possible through the use of social networks. This clearly could be of great value to one of Facebook's target audiences—its advertisers.

The results suggest that the emotions of friends on social networks influence our own emotions, thereby demonstrating emotional contagion via social networks. Emotional contagion is the tendency to feel and express emotions similar to and influenced by those of others. Originally, it was studied by psychologists as the transference of emotions between two people.

According to Sandra Collins, a social psychologist and University of Notre Dame professor of management, it is clearly unethical to conduct psychological experiments without the informed consent of the test subjects. While tests do not always measure what the people conducting the tests claim, the subjects need to at least know that they are, indeed, part of a test. The subjects of this test on Facebook were not explicitly informed that they were participating in an emotional contagion experiment. Facebook did not obtain informed consent as it is generally defined by researchers, nor did it allow participants to opt-out.

When information about the experiment was released, the media response was overwhelmingly critical. Tech blogs, newspapers, and media reports reacted quickly.

Josh Constine of TechCrunch wrote:

> *" . . . there is some material danger to experiments that depress people. Some people who are at risk of depression were almost surely part of Facebook's study group that were shown a more depressing feed, which could be considered dangerous. Facebook will endure a whole new level of backlash if any of those participants were found to have committed suicide or had other depression-related outcomes after the study."*

The *New York Times* quoted Brian Blau, a technology analyst with the research firm Gartner, "Facebook didn't do anything illegal, but they didn't do right by their customers. Doing psychological testing on people crosses the line." Facebook should have informed its users, he said. "They keep on pushing the boundaries, and this is one of the reasons people are upset."

While some of the researchers have since expressed some regret about the experiment, Facebook as a company was unapologetic about the experiment. The company maintained that it received consent from its users through its terms of service. A Facebook

spokesperson defended the research, saying, “We do research to improve our services and make the content people see on Facebook as relevant and engaging as possible...We carefully consider what research we do and have a strong internal review process.”

With the more recent events, Facebook is changing the privacy settings but still collects an enormous amount of information about its users and can use that information to manipulate what users see. Additionally, these items are not listed on Facebook’s main terms of service page. Users must click on a link inside a different set of terms to arrive at the data policy page, making these terms onerous to find. This positioning raises questions about how Facebook will employ its users’ behaviors in the future.

Critical Thinking Questions

1. How should Facebook respond to the 2014 research situation? How could an earlier response have helped the company avoid the 2018 controversies and keep the trust of its users?
2. Should the company promise to never again conduct a survey of this sort? Should it go even further and explicitly ban research intended to manipulate the responses of its users?
3. How can Facebook balance the concerns of its users with the necessity of generating revenue through advertising?
4. What processes or structures should Facebook establish to make sure it does not encounter these issues again?
5. Respond in writing to the issues presented in this case by preparing two documents: a communication strategy memo and a professional business letter to advertisers.

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CHAPTER OVERVIEW

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14.1: Biblical Insight



Applying the Bible to Business

Scriptures show us, “A good name is more desirable than great riches; to be esteemed is better than silver or gold.” Proverbs 22:1. When we apply this proverb to business, let’s look at a current market brand. The world's most valuable apparel brand, *Nike*, is valued at $31.5 billion. Nike has a name that people around the world recognize and trust. Branding allows companies to build relationships with their customer base to create loyal customers. These companies have won customers' trust and are supporting a sustainable future for their company.

A company that focuses on profits rather than a good brand name jeopardizes its long-term sustainability. A good reputation is essential for a long-lasting, sustainable business. Take a moment and think of company brands that people trust. Why are these brands trusted? What action steps can be taken to build a good reputation that customers trust?

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14.2: The Promotion Mix and Its Elements

Learning Objectives

By the end of this section, you will be able to:

- Define the promotion mix and explain its importance.
- List and describe the elements of the promotion mix.

What Is the Promotion Mix?

As consumers, we have all been the target of promotional campaigns. To connect with consumers of a target market, companies conduct extensive market research so that they may better understand the consumer. When companies understand consumers, they can better structure a message to appeal to them and find the best channels for reaching the customer.

The messages created aim to get consumers' attention. Sometimes, they create awareness of a new event, a new product, a new idea, or a place to visit. Sometimes, they ask consumers to make a purchase. Marketing promotion is all around us.

According to the marketing firm Yankelovich, Inc., the average digitally connected person is exposed to around 5,000 ads per day (Johnson, 2014). Among the biggest promotional spenders in the United States is Disney (Statista, 2022a). Disney produces ads for everything from its movies and toys to its vacation clubs and theme parks. While we should be flattered that these companies are thinking of us and trying to figure out how to reach us and what messages they should send, many consumers are busy figuring out how to shut out the messages.

When you sit down to watch television, you are typically exposed to ads that a company believes that you will respond to based on the research it has done about the audience watching the show you tuned in to watch. While you scroll through your news feed on Facebook, you are being served ads corresponding to your Internet search history and even products you may have mentioned while your phone was on and your news feed open. Digital advertising relies heavily on algorithms that analyze your search history and site visits.

As recipients of these marketing messages, many consumers believe marketing is only advertising or sales. However, advertising and sales are simply two options in a marketer's arsenal of communication tools for connecting with the target market. Developing a marketing communications strategy is something marketers should only do after they have developed the rest of the marketing mix.

Marketers have a wide variety of strategies to use from the overall promotional mix (see Figure 14.2). Most companies use a combination of promotional mix methods to create an integrated marketing message that reaches the customer in many ways. When the messaging is integrated, the consumer receives the same message no matter which method of promotion is chosen. If the consumer is watching the news and hears a story about the company or product, public relations has impacted them. If they scroll through their social media accounts at the end of the day and see an ad for the same product, advertising has impacted them. When they sort through their email and receive a message from the company, they are receiving direct marketing communication.

Promotion no longer relies heavily on just one method of marketing communication. Marketers can be much more targeted and cost-effective in their chosen promotional methods. Using a combination of techniques to send the same message allows the marketer to be more strategic in their messaging and their budgeting.

The best products are nothing until the consumer knows about them. Without good promotion, the best products are just secrets. We all have things we want to say, and on any given day, we make phone calls, create Instagram posts, upload TikTok videos, send emails, shoot text messages, and talk face-to-face with people. And just like us, marketers also have things to say. Usually, they want to tell consumers about their new brand extension of Reese's, a trade-in allowance for a new Toyota Camry that just hit the car lot, or even a buy-one-get-one-free promotion for your Starbucks latte. How marketers decide to say and send the message is the promotion mix.

The promotion mix is the set of strategies marketers use to communicate with their customers. With combined strategies, the promotion mix creates a powerful method of connecting with the customer and conveying all the other marketing mix elements for a holistic marketing approach. The promotion mix allows marketers to reach customers in many ways, ensuring that the message is

seen, heard, and understood. After determining and defining the target market, creating a good product, selecting a pricing strategy and optimal price, and deciding on the distribution method, the marketer is ready to communicate with the customer.

Messages sent by multiple methods provide a better opportunity for consumers to see and hear the message and connect to the company. When a message is only sent by one method, the potential for interference, noise, and avoidance is more likely to occur. Marketers use a multichannel approach to send an integrated message.



Figure 14.2 The Promotional Mix (CC BY 4.0; Rice University & OpenStax)

Promotion Mix Defined

The strategies that combine to make up the promotion mix include advertising, sales promotion, personal selling, public relations, direct marketing, and Internet/digital marketing. Each of these methods is intended to produce different results when used. Combining the elements creates an overall integrated message designed to reach consumers at various points in their path to purchase. Marketers call this integrated messaging integrated marketing communications.

The Importance of the Promotion Mix

Of all the marketing mix variables, the promotion mix can be further divided into different message channels that allow for connection and communication with the customer. When the promotion connects with the customer, it is the moment when all the marketing activities come together. When the messaging and method of delivery reach the customer and create the desired result, the marketing has achieved its purpose.

The strategies in the promotion mix provide the marketer with an arsenal of methods to achieve their marketing objectives, such as increasing sales or introducing a new product. However, consumers are bombarded with marketing messages throughout the day, and these are combined with the business of everyday life events like news, music, work, chores, family, and friends. With this busy pace and activity, the consumer is very difficult to reach. For busy consumers, one communication method alone is not likely to cut through the clutter and noise to reach them and make an impact. Marketers must combine the various communication elements to connect with the customer and meet the communication objective.

Elements of the Promotion Mix

When analyzed individually, each of the promotional mix elements is powerful. They each have a part to play in the overall success of a company. Combined and carefully executed, they create powerful brands with legions of loyal fans and followers—the consumers. What do each of these promotional mix elements do, and how do they contribute to connecting with the consumer?

Advertising

Advertising is a multi-billion-dollar industry. According to Statista, in 2020 alone, worldwide advertising spending reached $586 billion (Statista, 2022b). Advertising is paid nonpersonal communication from an identified source that allows for creative messaging about all aspects of a product, service, idea, person, or place. Consumers can quickly point to advertising as a form of promotion. It is perhaps the element of the promotional mix that we are most familiar with and the one we have been most exposed to throughout every phase of our lives.

From our very first commercial showing how much fun it is to build with LEGO to imagery of a toddler walking the Disney streets with a costumed princess and Cinderella's castle in the foreground, we know what advertising looks like. While advertising can take many forms, it is important to note that advertising consists of carefully designed messaging from the company to the consumer. Advertising is meant to produce a response in the viewer. Advertising is all about what the company wants to tell us.

Advertising can be the pop-up window while we are doing a Google search. It can be the Chick-fil-A billboard we pass daily on our way to work. Advertising can be the trailer we watch before our movie starts. And advertising can be the fun Doritos spots we look forward to during the annual Super Bowl.

While advertising can be a costly means of communication with the customer, it is relatively inexpensive based on the number of people reached. When NBC priced the 2021 Super Bowl at $6 million for a 30-second spot, with a record 96 million viewers, the price averaged around $0.06 per person reached (Steinberg, 2021).

Advertising is effective based on the frequency with which it is usually viewed. And because of the media, the advertising message can be repeated many times, depending on the budget. Its repeatability gives production costs a better return on investment (ROI) the more an ad is used, and the recall of the ad increases significantly.

Sales Promotion

Most consumers love a sales promotion. It creates a feeling of excitement and often includes a bit of a gaming experience in the purchase decision. Marketers value the benefits of sales promotions because the results are immediate, and they have a wide variety of options when using this promotional mix element. A sales promotion is a method for a marketer to induce sales in the short term. Sales promotion is not a long-term strategy but is geared toward specific calls to action, typically aimed at getting the consumer to buy something immediately or enter a sweepstakes or contest (see Figure 14.3).



Figure 14.3 Sales discounts are a promotional mix element that marketers use to appeal to customers and to deliver short-term sales for the company. (credit: "Sales Promotion at a Shop Window in Munich" by Henning Schlottmann/Wikimedia Commons, CC BY 4.0)

Using sales promotions can be an effective method of getting the consumer to try a product or buy more of a product, or it can be a way to quickly deplete an inventory to make way for new products.

While sales promotions have many tactics that the marketer can employ, several commonly used examples of sales promotion include the following:

- Buy One Get One (BOGO). When Domino's Pizza offers customers a free pizza when they buy a medium one-topping pizza, this BOGO deal is used to get an immediate increase in Domino's pizza sales. Consumers may buy Domino's over other pizza brands because they can get more pizza for their money.
- Enter to Win. PepsiCo needed to gain traction with the millennial audience. It needed to boost Lay's brand of potato chips and compete with new flavorful organic chips that were getting market share in the category once dominated by Lay's. To generate new interest in its brand, Lay's launched a campaign for consumers to create a new flavor. New flavors could be entered, Lay's would create samples, and the winner of the new chip flavor would win $1 million.
- Coupons. This method of promotion has come a long way with the use of technology. While consumers can still "clip" coupons and redeem them at the point of sale to receive savings on the products they buy, many companies are making coupons available through mobile apps and discount codes to apply at the point of sale through an e-commerce store. Using coupons is a great method of inducing trial of a new product and increasing market share.

For National Ice Cream Day (see Figure 14.4), Cumberland Farms wanted to increase the sales of its house brand of ice cream, Ultimate Scoop (Gustafson, 2022). It offered consumers a digital coupon for $1 off a pint of the ice cream. Cumberland Farms' existing customers received their coupon via text message, and new customers could text in to get the coupon.



Figure 14.4 Cumberland Farms used a coupon promotional strategy as a way to increase the price of its ice cream. (credit: "Ice Cream Cone" by Sean MacEntee/flickr, CC BY 2.0)

- Rebates. Companies offer rebates to induce purchase and generally to receive something in return besides the sale. When a rebate is offered for the purchase of an Energy Star–certified product, the consumer gets a designated dollar amount off the product's price. In turn, they must submit the proof of purchase and identifying information about themselves.

Personal Selling

Personal selling is one of the most expensive forms of promotion because it is a one-on-one, person-to-person communication with the customer. The role of the salesperson is to inform and persuade the customer. This is usually done in what is termed an exchange situation. The salesperson is exchanging knowledge and something of value, while the customer is exchanging money for the item of value. Personal selling is ideal for products that can be customized, are complex, and have a relatively high price point.

Personal selling is often used in business-to-business (B2B) markets. Business buyers have longer buying cycles, more complex buying situations, and larger budgets. The pharmaceutical industry is well-known for using personal selling. Company representatives must have a high degree of training and knowledge about the products they sell to physicians and hospitals. It is also very common to have a sales force to sell equipment and machinery to manufacturing plants. Businesses rely on the knowledge and service of the sales force to sell their products.

In the business-to-consumer (B2C) market, personal selling is used for items that cost more or have a high degree of variation. We find sales representatives when we buy automobiles, home improvement products, and insurance. The sales representative's job is to determine our needs and provide solutions that fill those needs.

Compared with advertising, which has a general message directed to a large audience, personal selling is individualized for one or several people within the buying group. When evaluating the costs of personal selling, it is typically hundreds to thousands of dollars per person reached.

The process of personal selling can be time-consuming. The selling process and the sales force's tasks can be complex. The sales professional is tasked with prospecting to identify the right customers and then qualifying them to ensure they are a good fit for the product.

It is not uncommon to hear people say, “You talk a good game. You could sell to anyone.” In reality, salespeople do not want to talk people into a product. A good sales force wants only to sell to customers who want and need the product. The best sales force knows that when the customer is a good fit, they will bring repeat business and good word of mouth.

While some salespeople have a natural inclination for selling, others are highly skilled with the technical knowledge of their products. An understanding of customers, the buying situation, and the product being sold are a few skills needed to master the art of selling. Good sales professionals know that the real work of the sale is to service the client's needs long after the sale has been made.

Public Relations

Public relations is a non-paid, non-personal form of promotion. Because it is non-paid, it has a high degree of credibility and is beneficial because a typically credible, non-biased third party is the messenger. While there are many tactics that marketers might use for public relations, some of the most commonly used include press releases, press conferences, events, and annual reports.

Many of the other promotional tools focus specifically on communication with the customer. By contrast, public relations includes efforts to work with the community where it operates, media, government officials, educators, and potential investors.

When Nordstrom opened its flagship store in Manhattan, it unlocked the doors a few days early for a VIP celebration that included Vogue’s editor, Anna Wintour, along with actresses, models, and designers. Some noted attendees included Zoe Saldana, Katie Holmes, Olivia Wilde, Karlie Kloss, Joan Smalls, Winnie Harlow, Tory Burch, Tommy Hilfiger, and Stacey Bendet of Alice + Olivia. Guests formed long lines around the store to access the party (Trudeau, 2022).

TOMS Shoes has long been a leader in cause marketing (see Figure 14.5). When you buy from TOMS, one-third of the profits go to Grassroot Good (TOMS, 2022). TOMS’ annual report highlights the people the company helps and how it helps them. Investors and any interested parties receive the annual report that details the work TOMS does, right along with the profits it is making.



Figure 14.5 TOMS Shoes has effectively utilized a cause strategy, which has led to positive public relations with customers. (credit: “Toms Shoes at OhNo!Doom” by OhNo!Doom Collective/flickr, CC BY 2.0)

When celebrities wind up in the news, it is public relations, and it works to keep their name before the public and their fans. So the headline that hits the front page of the *New York Times* or is a leading news story on the NBC Nightly News creates publicity for the celebrity. Businesses also use publicity. A company might have a product as part of a movie, such as BMW vehicles showing up in 37 of the highest-grossing films of 2018 (Stewart & Campbell, 2022).

Public relations can also include crisis communication when negative issues occur. One of the biggest public relations issues happened in 1982 with Tylenol. A malicious person or persons in the Chicago area tampered with a few bottles of Tylenol Extra Strength capsules by replacing the actual capsules with cyanide-laced capsules. Consumers who unwittingly bought the Tylenol ended up dead. Johnson & Johnson, the maker of Tylenol, faced issues that could easily have destroyed its business. The problem was the leading story for every news outlet.

Johnson & Johnson faced the issue head-on and boldly moved to remove Tylenol from all shelves. The recall resulted in removing 30 million products from store shelves (Rehak, 2022). In the end, Tylenol was a hero that won the trust of a nation.

Direct Marketing

Direct marketing allows for direct communication with the customer. Messages can be tailored to specific market segments and personalized toward individual consumers. Early direct marketing tactics included telephone and mail; however, technology has allowed for new methods of connecting with the customer, including text messaging and email marketing.

In 2019, the Data & Marketing Association (DMA) reported that the direct mail industry was valued at $44.2 billion (Robinson, 2021). It’s the second-largest channel for ad spend in the United States and continues growing. Transformed by technology, direct marketing finds new ways to connect with customers. Most connections include a call to action that provides immediate feedback on the method's effectiveness.

Internet/Digital Marketing

Internet/digital marketing includes the use of technology to reach customers at many different points of interaction. Marketers have a variety of methods at their disposal to reach their customers and brand products. Some tools include websites, landing pages, social media pages, widgets, and customer relationship management (CRM) systems. All the digital properties work together to drive traffic to the branded properties and engage the consumers.

Digital marketing is geared toward very specific market segments and is primarily interactive. Think of digital marketing as the mechanism that produces immediate interaction with the customer and produces some type of feedback. Digital is considered two-way communication between the company and the customer. During the early stages of the SPANX brand launch, Sara Blakely primarily used digital marketing with a heavy emphasis on social media (O’Connor, 2012). She involved her female friends in her target market demographic and had them post about the brand through their social media.

By contrast, Internet marketing is sending a message to a mass audience. The Internet is used for digital marketing and includes websites, digital ads, and the two-way communication of social media. Other forms of digital marketing include mobile technology such as SMS and mobile apps.

When a consumer completes a Google search for shoes, jumps to Facebook to scroll their feed, and is served shoe ads from Nordstrom, Macy’s, and Steve Madden, they have been targeted by these shoe companies. The messaging's targeting, immediacy, and changeability make digital a quick and efficient method of reaching consumers. Digital promotional tools are extremely effective and can cut through the clutter and reach consumers when they are in the demand phase of the buying process and have signaled an intent to purchase.

According to Gartner's 2020 chief marketing officer (CMO) survey, two-thirds of promotional budgets are being spent on digital (Ramaswami, 2020). Because of the tremendous analytics available, marketers can assess the effectiveness immediately. Messages can be tested for effectiveness and quickly changed if they are not producing results. It isn't easy to get the same quick feedback as any other promotion form. Through careful tracking and robust customer relationship management (CRM) systems, marketers can quickly promote products, increase brand awareness, and move consumers down the sales funnel to instantly purchase through online e-commerce sites.

Utilizing mobile app technology, marketers can push promotions to customers while segmenting them by their behaviors and simultaneously filling their CRM with insights and analytics that can help drive promotions and sales.

Careers In Marketing: Integrated Marketing Career

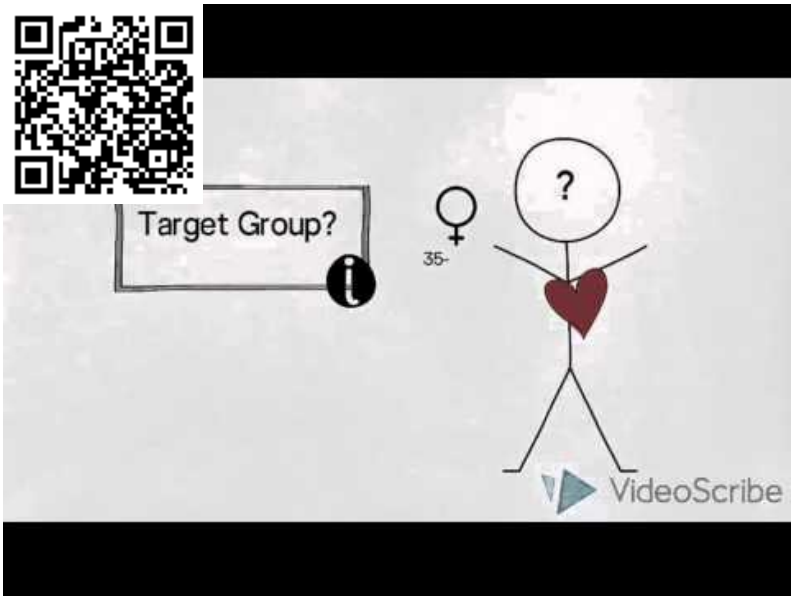
An integrated marketing communications (IMC) professional builds and manages campaigns that integrate all the facets of marketing—advertising, public relations, digital campaigns, sales, etc. If you're interested in this job role, check out this article to learn about qualifications, experience, and salary. You can also refer to programs offered by educational organizations specializing in integrated marketing. A few examples of those educational organizations include San Diego State University, Marist, Northwestern, and Eastern Michigan University, to name a few. Check out this list of the Best Marketing Communication Colleges according to Best Accredited Colleges.

Additional resources to explore include the following video:

- IMC Careers from Northwestern's IMC director



- Introduction to IMC geared toward marketing management students



- Evolution of IMC from Marist College



Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The goal of an integrated marketing communications (IMC) program is to _____.

a. have all of a company's marketing and promotional activities project a consistent image and message to its target market
b. control all facets of a product's distribution
c. communicate with customers only through television commercials
d. have complete control over all facets of the marketing mix

2.

One of the promotional mix methods is advertising. Advertising may be defined as any _____.

a. communications about a good, service, or company
b. paid forms of communication about a good, service, or company
c. communication that moves the product from the wholesaler to the retailer
d. communication from a company sales representative to a company buyer

3.

If you have a new brand and want to reach a large consumer audience, which promotional mix element would probably be used?

a. Sales promotion
b. Personal selling
c. Advertising
d. Public relations

4.

Dunkin' includes coupons in its print magazine advertisements. This is an example of _____.

a. sales promotion
b. public relations
c. personal selling
d. Internet/digital promotion

5.

When a singer who is voted off *The Voice* television series appears on *Today* to discuss the experience, it is an example of _____.

a. advertising
b. public relations
c. sales promotion
d. direct marketing

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14.3: Traditional Direct Marketing

Learning Objectives

By the end of this section, you will be able to:

- List and describe the various forms of traditional direct marketing.
- Explain how the digital age has impacted direct marketing.

Forms of Traditional Direct Marketing

Direct marketing involves using communication tools to engage directly with individual consumers and call them to take some marketing action (see Figure 14.2). That action can be a consumer visiting a website or calling a phone number. Ultimately, the goal is to motivate the consumer to make a purchase. If you've received a catalog in the mail or caught yourself watching an entire infomercial about the newest kitchen gadget or gym equipment, you've experienced traditional direct marketing as a consumer.

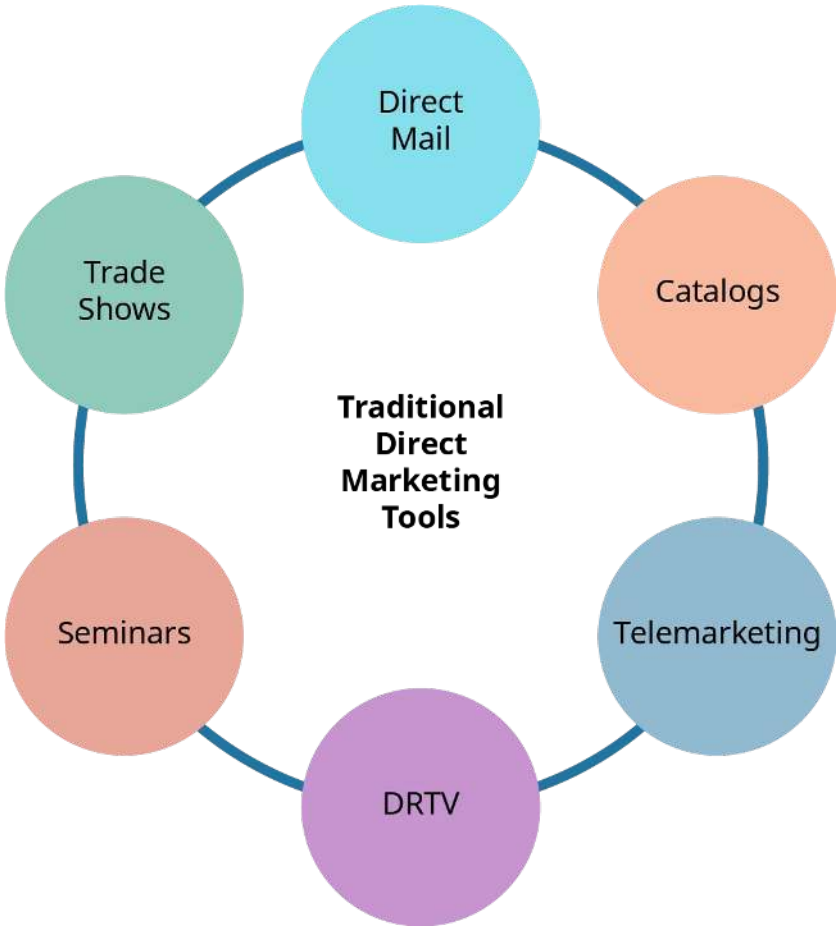


Figure 14.2 Types of Direct Marketing (CC BY 4.0; Rice University & OpenStax)

Direct-Mail Marketing

Direct mail arrives in people's homes every day and is typically delivered by the U.S. Postal Service. When marketers use direct-mail marketing, they communicate promotional messages and offers directly to people's homes or places of business. Examples of direct-mail marketing include postcards featuring an offer, discount, or coupon code. Additional examples include seasonal catalogs and glossy lookbooks presenting the latest fashions.

Like all forms of direct marketing, direct mail is designed to call the consumer to take an action, whether to visit a website, scan a QR code, or call a phone number. It is also highly targeted in that companies can send mail based on demographic characteristics

such as age, income, zip code, and buying behavior.

Direct mail has some key advantages over other forms of promotion. First, as consumers are inundated with digital messages, direct mail offers the opportunity to stand out and capture attention. Even mostly digital-facing companies such as Warby Parker (see Figure 14.3) and Casper (mattresses) have added direct mail to their promotion portfolios in an attempt to stand out from other brands.



Figure 14.3 Warby Parker utilizes direct marketing as a way to reach consumers. (credit: "Warby Parker Sunglasses" by Christopher Fields/flickr, CC BY 2.0)

Direct mail also reaches an entire household of people. This is an important advantage for product categories where household members typically discuss and decide on a product together.

Finally, direct mail has the characteristic of lingering. Other forms of promotion, such as advertising and email marketing, don't have as long a life span as direct mail. According to RetailWire, the average life span of a direct mail piece is 17 days, which means that a household may review that message repeatedly over the life of the mail piece (Ryan, 2019).

The major disadvantage of direct mail is that many consumers consider it junk mail and throw it out without every reading the offer. Also, mail can take time to land in homes. Although the U.S. Postal Service offers speedier delivery options, these come at an increased cost.

Catalog Marketing

Catalog marketing, also known as direct mail order, dates back to the 19th century and is one of the oldest forms of promotion. Catalogs typically include a variety of products that are often vividly displayed in a high-gloss magazine-like format.

Companies such as Lands' End and IKEA have long used catalogs to entice consumers to call the phone number or visit the website displayed on the catalog. The call to action is precisely what makes catalog marketing direct marketing. Consumers are presented with vivid product images and offers such as free delivery or 20% off if the consumer responds to the call to action.

According to a 2020 article published in *Harvard Business Review*, catalogs are making a comeback. Consumers report being excited to receive a catalog. In fact, response rates for catalogs have jumped 170% over the last decade (Zhang, 2020).

Unlike emails and advertisements, catalogs remain in consumer homes long after they arrive. Companies such as Target and Amazon have used catalog marketing to connect with customers and present featured products across the seasons.

Telemarketing

Telemarketing is a form of direct marketing that involves a company representative placing or answering customer calls to guide the consumer toward making a purchase. During the calls, the representative or agent typically communicates offers to potential customers. Like other forms of direct marketing, the goal is to motivate the consumer to take some action, such as making a purchase or setting up a follow-up appointment.

Telemarketing can be outbound or inbound. With outbound telemarketing, a company representative contacts the prospective customer directly by phone. With inbound telemarketing, demand for the product or service is generated through other channels such as advertising, email, or direct mail. In response to messages delivered through these channels, the customer is motivated to contact the company directly regarding the product or service.

Companies that manage large volumes of calls typically use a call center, a centralized space where agents answer inbound calls and place outbound calls. The call center serves as the centralized location where customer information is collected or confirmed, and then the customer is directed to the right product or service representative. With the explosion in the use of smartphones to search the web, consumers can direct dial from any web page that presents a phone number for contacting the company. Many inbound calls are routed to agents who are located offshore in India and other countries.

Car dealerships often combine telemarketing with online direct marketing tools to connect with buyers interested in a vehicle listed in the dealership's online inventory. The dealership website may invite consumers to complete a form, after which a sales representative will call the consumer to set up a test drive appointment or answer questions about availability.

Telemarketing can be effective in cases where the consumer expects a phone call. However, the explosion of unsolicited phone calls from telemarketers has led to a rise in regulation around this direct marketing tool. In 2003, the U.S. government created the National Do Not Call Registry, which bans unsolicited telemarketing calls (Federal Trade Commission Consumer Advice, 2011). Consumers must opt in and give permission for companies to contact them. Businesses that do not comply with the law face a hefty fine for violations.

Direct-Response TV (DRTV)

Direct-response television marketing is a type of direct marketing that is designed to compel viewers to take some immediate action, such as calling a phone number or visiting a website presented during a television commercial. The commercials typically involve a persuasive demonstration of a product, after which consumers are provided with a toll-free number or a website to order. The television stations QVC and HSN are excellent examples of DRTV, selling everything from apparel to appliances.

Link to Learning: DRTV in Action

This movie clip from the film *Joy* starring Jennifer Lawrence as real-life entrepreneur Joy Mangano shows DRTV in action.



DRTV commercials often run 60 or 120 seconds but can be shorter. DRTV commercials that run for 30 minutes or longer are called infomercials. Dollar Shave Club has garnered 27 million views of its famous direct-response television commercial featuring founder Michael Dubin hilariously identifying all the problems with traditional shave products (see Figure 14.4). The commercial features the website domain several times and a clear call to action to the consumer to visit the site to learn more.



Figure 14.4 DRTV marketing compels consumers to take action and is used by the Dollar Shave Club, QVC, and HSN. (credit: "Shave of the Day, 08/21/09" by Dharion/flickr, CC BY 2.0)

Infomercials often feature a spokesperson promoting the benefits of a product. In many cases, there is a persuasive demonstration of the product, and viewers are called to "act now." Some of the most well-remembered infomercial products include the Snuggie, Magic Bullet, and Proactiv. A carefully executed commercial, coupled with the right product, can generate billions of dollars for companies. Proactiv, for example, rebranded as Alchemee in 2022, generated $1 billion in sales in 2020 from its famous acne skin-care line (Stych, 2022).

Because it offers the advantage of capturing customers in real time and is easy to measure, DRTV continues to be an effective direct marketing tool.

Seminars

Seminars allow companies to share their expertise and knowledge related to a topic, issue, or industry. These can be done in person or virtually and are a great tactic for developing trust and building relationships with consumers. They have additional advantages, including building greater brand awareness and introducing new products or services, and may ultimately lead to increased sales.

Trade Shows

Trade shows are exhibition events that provide companies the opportunity to present themselves and their products and services to industry peers. Trade shows are suited for the business-to-business (B2B) market and are sponsored and hosted by industry trade organizations. They are an excellent way for industry professionals to network and grow their businesses. They are also wildly popular. For example, one of the most popular trade shows, the Consumer Electronics Show, or CES, attracts thousands of companies that showcase their latest technology. This trade show serves as an intersection for industry professionals in the health, gaming, and automotive spaces, and participants include tech companies such as Google, Microsoft, and E3, among others.

Companies that participate in trade shows can benefit in the following ways. First, trade shows allow company representatives to visit with existing customers to grow current sales and further solidify their partnership. They also give companies a chance to connect with and present to new buyers.

Every year, MailCon brings together marketing professionals, brands, and agencies to discuss the latest trends in email technology, strategy, and automation. Major brands such as Wayfair, Girl Scouts of the USA, Ford Motor Company, and A&E Networks gather to network and learn about advancements in the email marketing space (MailCon, 2022).

Link to Learning: Digital Marketing

Digital marketing reaches customers where they are at—online. HubSpot answers some of the most common questions it gets about digital marketing in this article.

How Has the Digital Age Impacted Marketing?

The digital age has changed how marketers engage with customers and build relationships. Although the traditional channels of print, television, and radio certainly present advantages, the digital age has created opportunities for marketers to engage with

consumers in a highly personalized and interactive way.

Online Direct Marketing Defined

Although traditional forms of direct marketing center on engaging directly with consumers through channels such as mail and television, online direct marketing uses a rich collection of digital tools to target individual consumers with an offer that requests a response or action. The online direct marketing tools covered in this section include website marketing, email marketing, content marketing, online video marketing, blogs, and online forums.

LendingTree is a great example of a fintech (financial tech) company disrupting the traditional banking industry. LendingTree has revolutionized the way consumers and banks participate in the lending process. It excels at matching consumers searching for financing with banks looking for qualified customers. It is LendingTree's digital marketing tools that make this matching process possible.

A consumer who searches the web and lands on LendingTree's website is invited to compare quotes and plans that are tailored to their age, income level, and location by filling out an online form. LendingTree then displays consumer-relevant plans and quotes based on their demographics and follows up with an email inviting consumers to view offers from financial institutions. If the customer is a Gmail user, consumers may then see digital ads later on sites such as YouTube and in their Gmail inbox.

Direct Meets Digital: The Evolution of Direct Marketing with Technology

The explosion in internet usage and online shopping coupled with the evolution of digital technologies has resulted in the emergence of online direct marketing. Although traditional forms of direct marketing remain important for engaging with consumers, the channel has evolved as technology has evolved. With 3.5 billion smartphone users worldwide, marketers recognize the value in engaging with consumers through mobile devices. In the United States alone, 65.6% of Americans report that they check smartphones 160 times a day (Georgiev, 2022).

In response to the explosion in smartphones and internet usage, online direct marketing is getting a larger share of advertising spend. In 2020, advertisers spent $139.8 billion on digital marketing, and that number is expected to grow to $200 billion by 2025 (Bangah, 2021).

Forms of Online Direct Marketing

There are several online direct marketing tools that can be used (see Figure 14.5). Let's take a look at each tool in the following section.



Figure 14.5 Online Direct Marketing Tools (CC BY 4.0; Rice University & OpenStax)

Website Marketing

Website marketing is the promotion of a website that results in driving traffic or visitors to the site to learn more about the product or company or to make a purchase. The purpose of website marketing is to attract online shoppers who may be interested in a company's product or service offering.

Developing a website is one of the most important steps a company can take to establish a digital presence online. Websites serve a variety of purposes. Some are designed to nurture consumers and guide them toward making a purchase, whereas others are designed to facilitate transactions. For example, car manufacturers such as Toyota and Honda use their websites to deliver details and options related to their product lines. Consumers can use interactive tools to change out features and colors based on their preferences; however, consumers would likely visit a dealership to make the actual purchase.

Amazon.com is designed to allow third-party sellers to share product details, reviews, and product comparisons. Its purpose is to facilitate a purchase transaction in which the consumer buys something directly from the site. Shopify has recently emerged as the "anti-Amazon" by offering sellers more than a dozen services ranging from e-commerce websites to inventory management and payment processing.

There are still other websites whose purpose is not transactional but that are designed to build community and engagement among customers. Bleacher Report's website offers sports articles, game scores, and live sports streaming. Fans are invited to comment and engage with one another regarding the latest sports news. The website also offers the option of signing up for its newsletter delivered to consumers' email inboxes. Whether it's to communicate information, facilitate a transaction, or build a community, websites should be designed with a positive user experience (UX) in mind.

Email Marketing

Email marketing is a type of direct marketing that is highly personal and designed to build relationships with consumers. Marketers use email to communicate promotions about products and share relevant content. It offers the advantage of connecting companies

with highly targeted consumers at a much lower cost than other channels. Email usage statistics are also impressive, making this channel attractive as an online direct marketing tool.

Email boasts over 4 billion daily users; 99% of people report checking their email on a daily basis (Kirsch, 2022). Given the low cost and high usage rate, email marketing can be a profitable way to connect with customers. Marketers generally send two types of emails: transactional emails and marketing emails. A transactional email is a type of email that is sent to customers following a commercial transaction, such as a purchase or a return. When online shoppers purchase athletic apparel from Dick's Sporting Goods, they receive an email confirmation confirming the order.

Marketing emails are promotional in nature and typically involve a marketing offer. Old Navy sends marketing emails during major sales events. They feature relevant product categories based on past purchases, often including a coupon code or free-shipping promotion.

Buzzfeed provides another great example of a company that optimizes email marketing to reach subscribers. According to Campaign Monitor, it has created a collection of diverse and audience-catered newsletters that are tailored to the preferences of Buzzfeed's subscribers (Wildt, 2019). Emails feature relevant articles and funny GIFs that prompt subscribers to visit the site to read more. On average, subscribers who visit the site via email spend more time on the site than visitors from other channels.

Regardless of their email marketing strategy, companies utilize email marketing platforms such as Mailchimp to reach target audiences. Mailchimp is built for growing businesses, and in 2022, it launched a Super Bowl advertising campaign to promote its services. As a martech (marketing technology) company, it offers small businesses tools for guiding consumers through a customer journey to a purchase. Mailchimp's automation tool allows businesses to send email campaigns based on a consumer's interaction with an email message. The result is a highly personalized email conversation between the small business and the customer.

Link to Learning: Mailchimp

Learn how Mailchimp's CEO and cofounder, Ben Chestnut, built and grew the Mailchimp email platform in this podcast: NPR's How I Built This with Guy Raz.

Check out the 2022 Super Bowl commercial with DJ Khaled here:



Email marketing is also known as permission-based marketing. Permission-based marketing requires that marketers get consent to send email and text messages to consumers before contacting them with a promotional message. Once a consumer opts in to receive an email or text message, they can opt out by clicking on an unsubscribe link or by reply-texting a company to opt out of messages.

Consumers typically opt in to receiving emails when they place an online order so that they may receive order confirmation and shipping updates. In addition, consumers are also opting in to receive other value-added content, such as exclusive discounts,

access to a webinar, a free trial, or some other type of value exchange.

Content Marketing

Websites, email, and other forms of online marketing are only as good as the content they carry. Content marketing involves creating and distributing content that is valuable and relevant to a company's target customers. New York–based Dotdash Meredith is a good example of this. The company's digital brands include Verywell, The Spruce, Byrdie, and others. Dotdash Meredith is a unit of Barry Diller's IAC. Company policy: no pop-up ads!

As with other forms of direct marketing, content is about driving customers to take some desired action. Consumers would much rather consume a funny video clip, a highlight reel of their favorite athlete, and an inspiring quote or comment than see banner and pop-up ads. For content marketing to work, it must be useful, relevant, high quality, and engaging to the targeted audience.

When content is delivered through social media, blogs, and email, consumers have the opportunity to engage directly with the company and other content consumers. They can like, share, retweet, and mark as a favorite—all examples of actions taken in response to the content. Marketers can use the data created by these actions to perform sentiment analysis and generate other metrics. The challenge with content marketing is that it is constantly changing. Companies are tasked with constantly updating their content and continuing to tell stories that their audience wants to hear and engage with.

Online Video Marketing

Online video marketing involves creating videos that tell a story about a product, company, or brand designed to drive consumer engagement through activities such as liking, sharing, and retweeting. Video marketing is becoming increasingly popular as a marketing tool because the cost of creating video campaigns has dropped significantly in the last decade due to technological advancements. Biteable, for example, offers marketers a cost-effective way to create brand videos that are quick, simple, and customizable.

Along with the drop in cost to produce online videos, consumer demand for videos has increased. Because of this demand, Instagram, Facebook, and Twitter have pivoted to video-first platforms. Wyzowl's annual State of Video Marketing Survey revealed in 2021 that online video watching has doubled since 2018 and that online marketers "feel positive about the return on investment offered by video more than ever as it continues to strongly influence traffic, leads, sales, and audience understanding" (Hayes, 2023).

Link to Learning: Wyzowl's Survey Found on HubSpot

Read more about the key data points learned by Wyzowl in its 2022 survey. You might be interested to learn that 86% of businesses use video as a marketing tool, 94% of companies believe videos help customers better understand their product, and 99% of video marketers said they will continue using video. You can find the full report here. There's a ton of interesting information!

Blogs and Online Forums

A blog is an online journal of interests, beliefs, or other topics published by a person, a group of people, or an organization. In its early stages, a blog was a personal journal that someone posted to the web. It's since evolved into an online marketing tool that is typically a website or a webpage and serves a variety of purposes.

First, a blog's purpose can be to share valuable and relevant information with targeted audiences. Ultimately, the goal is to attract visitors to the page or site and convert them to customers. In addition, marketers create blog content on sometimes a weekly or even daily basis so that consumers continue to visit the site or the page to access the new content. When the blog content is good, visitors will continue to engage with the articles produced by the company. Ultimately, this helps a company's organic ranking on Google. In Google, your page or website will rank higher on the Google search results page as it grows in popularity and consumers click on it.

Blogs are also a great way to create and nurture online communities, or groups of people with similar interests connecting to one another online.

Customer relationship management company HubSpot is excellent at creating high-quality blog content for marketing and business professionals. It covers an array of professional topics, from marketing to human resources management to communicating effectively in the workplace. Its content ultimately drives visitors to its website, where they'll find a suite of programs designed for marketing, sales, customer service, and operations.

Blogging can be an integral part of a content strategy as long as marketers dedicate time and resources to continue updating the content. Visitors appreciate fresh and relevant information, and delaying the delivery of high-quality content may mean a loss of visitor interest.

Link to Learning: Content Marketing Tools

Learn more about the types of content marketing tools marketers have to work with by reading this HubSpot article. Included are the types you're probably more familiar with, such as blogs and videos, but also discussed are the ones you may not have as much experience with, such as white papers and case studies.

Advantages of Online Direct Marketing

Several key advantages make online direct marketing an attractive tool for marketers. First, online direct marketing is not restricted by geographical boundaries. The Internet is readily available to most consumers globally, making it practical to market around the globe.

Second, online direct marketing is much less expensive than other forms of marketing when considering its global reach. Imagine how expensive it would be to send direct-mail catalogs to customers all over the world. Establishing an online presence by developing a website and creating video and blog content is relatively inexpensive compared with other forms of promotion.

Third, online direct marketing is easy to measure regarding campaign performance. With advertising tools targeted to mass audiences, it isn't easy to attribute a sale to a particular television or radio commercial. With online direct advertising, marketers can track the performance of their campaigns based on consumers' interaction with digital tools such as email, online videos, and a company's website. For example, when Nike creates and posts online video content on YouTube and its website, Nike marketers can track consumers' engagement with that content and the consumer's online journey. Online direct marketing reveals real-time insights into the effectiveness of campaigns compared with more traditional forms of promotion.

Fourth, online direct marketing is highly targeted. Marketers can carefully focus promotion efforts on very specific groups of consumers based on their geography, their social media channel preferences, and other variables. Online direct marketing also allows for retargeting, which occurs when consumers visit different websites but are shown similar ads based on their online consumer behavior.

Finally, online direct marketing allows for real-time interaction between brands and consumers. Consumers may start with a Google search and end with the completion of an online purchase. Throughout the online consumer buying process, marketers have the opportunity to engage with the consumer in real time.

Traditional direct marketing and online direct marketing offer a variety of benefits in connecting marketers to targeted consumers.

Careers In Marketing: Digital Marketer

Digital marketers build and implement a company's online-related activities and sales. Review this job description and list of qualifications from Glassdoor for more details. There are several additional resources that will help you better understand the digital marketing job role and what it will take to get a job in this field:

- Ahrefs—A Source for Digital Marketing Tutorials: "How to Start a Career in Digital Marketing (Step-by-Step)"



- Neil Patel: “How to Get a Digital Marketing Job with No Experience”



- Digital Marketing Institute: “7 of the Hottest Digital Marketing Jobs”
- Indeed: “How to Get a Job in Digital Marketing in 7 Steps”
- American Marketing Association: “5 Reasons to Choose a Digital Marketing Career”

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following best describes the difference between traditional direct marketing and online direct marketing?

a. Online direct marketing uses digital tools to individually engage with consumers and call them to take some desired action. Traditional direct marketing does not allow a quick call to action.
b. Traditional direct marketing is more effective than online direct marketing.
c. Online direct marketing allows marketers to target consumers based on factors such as their location, age, and income. Traditional direct marketing can also be based on demographic factors.

d. Traditional direct marketing channels do not include a call to action, and online direct marketing channels do.

2.

Which of the following best summarizes the cause for the emergence of online direct marketing as a promotion tool?

a. The explosion of internet usage, online shopping, and smartphone usage and the advancement of digital marketing technologies best explains the emergence of online direct marketing.
b. Consumers are spending less time watching movies and shows.
c. Traditional direct marketing tools have gotten too expensive and are no longer effective at engaging customers.
d. Traditional direct marketing doesn't offer the same degree of message relevance that online direct marketing does.

3.

Which type of marketing involves creating and distributing content that is valuable and relevant to a company's target customers?

a. Website marketing
b. Blog marketing
c. Email marketing
d. Content marketing

4.

Which form of online marketing is permission-based, meaning that consumers must consent to receiving online messages?

a. Website marketing
b. Blog marketing
c. Content marketing
d. Email marketing

5.

Which of the following represents an advantage of using online direct marketing tools?

a. Online direct marketing allows marketers to target consumers globally because of worldwide access to the internet.
b. Online direct marketing is highly targeted in that marketers can reach customers through a variety of digital channels that are inexpensive compared with other promotion tools.
c. Online direct marketing allows for easier measurement of ROI on campaigns.
d. All of these are advantages of online direct marketing.

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14.4: Social Media and Mobile Marketing

Learning Objectives

By the end of this section, you will be able to:

- Discuss social media marketing and its opportunities and challenges.
- Discuss mobile marketing and its opportunities and challenges.

Social Media Marketing



Figure 14.6 Social media marketing has created an opportunity for marketers to reach consumers in real time through campaigns run on digital platforms such as YouTube, Instagram, and others. (credit: "Social Media Word Cloud" by cloudincome.com/flickr, CC BY 2.0)

As discussed in the previous section, internet and digital technology usage have surged across the globe, creating opportunities for marketers to engage with consumers in real time. Social media marketing has emerged as a powerful online marketing tool as consumer time spent on these platforms (see Figure 14.6) has grown substantially over the last decade. A growing share of Americans report using YouTube and Facebook more than any other social media platform. In segments under the age of 30, the most popular platforms are Instagram, Snapchat, Reddit, and TikTok.

Social Media Marketing Defined

Social media marketing is defined as using social media platforms to deliver content that drives engagement with your brand. Companies from PepsiCo to Home Depot to the pizza restaurant located in town use social media to connect with users, share content, and, ultimately, generate sales. Marketers can create brand profiles and sponsored content that they pay for.

Warby Parker uses Instagram to create high-quality content and showcase different styles of eyeglasses based on face shape. Users may click on the post, read and reply to comments, like it, mark it as a favorite, or share it on their own feed. If they are in the market for new eyewear, the social media post may drive them to the company's website, where they can virtually try on different styles of eyeglasses and ultimately make a purchase.

Social media marketing offers some advantages and disadvantages. The advantages include that it is highly targeted, it allows for engagement with and among users, it is a great tool for driving visitors to a company's website, and it is easily measured.

Uses of Social Media Marketing

Marketers recognize that social media presents an exciting opportunity to connect with consumers across a variety of platforms. Unlike some other forms of promotion, social media marketing allows marketers to target audiences precisely. Marketers can create

social media campaigns that target demographic attributes such as gender, age, and location in addition to psychographic attributes such as interests and viewing behavior.

For example, Facebook allows marketers to upload a list of customers that includes the demographic and psychographic attributes of the company's target audience. Facebook then creates what's called a "lookalike audience" that matches those customer attributes to the attributes of Facebook users so that the company's ads will show up in the feeds of the lookalike audience.

Social media marketing also allows users to engage with one another and company content. It's an excellent vehicle for marketers to distribute their online video and blog content and communicate promotional offers. Marketers can monitor engagement and participate in ongoing conversations with users who comment, like, and share content.

Harvard Business Review (HBR) provides a great example of how to use social media marketing effectively. HBR, a business management magazine published by the Harvard Business Publishing subsidiary of Harvard University, offers paid subscribers the latest research and articles on all things related to management.

During the pandemic, HBR gave people free access to all HBR content. The campaign ran on social media and resulted in increased traffic to the HBR website. This brings us to another important advantage of social media marketing. It can create traffic or visitors linking directly to the company's website from the social media platform.

Finally, social media marketing is highly measurable. Online marketers can evaluate key engagement metrics such as clicks, likes, and shares and optimize their social media campaigns so that they achieve the goals they set. For example, posting at 1:00 p.m. EST on Facebook gets the most shares, whereas posting content at 3:00 p.m. EST gets the most clicks.

A major disadvantage of social media marketing is that brands don't have complete control over the message. Consumers can freely write comments that are harmful to a brand's reputation. Amazon's Jeff Bezos famously wished everyone a "Happy Earth Day" in a tweet that showed him dogsledding above the Arctic Circle in Norway. He received serious backlash from Twitter users who pointed out at the time that Amazon employees were underpaid and overworked (Matyszczyk, 2018).

In addition to losing control over the message, social media marketing requires significant resources, including time and money. Content is key to creating engagement, and continuous creation of new and engaging content requires resources. Social media pages and posts also need to be monitored for engagement. For example, companies that are active on social media have a plan for reviewing and replying to sometimes hundreds of comments. Fortunately, there are great online tools to help automate replies to comments.

Facebook

Facebook, whose parent company was rebranded as Meta in 2021, is the largest social media platform, with over 2.9 billion monthly active users and $117.92 billion in revenue from 2022; data is now available for 2023 online as well (Iqbal, 2024). These numbers make this platform attractive for reaching a diverse, global audience. Facebook is facing the challenge that a growing percentage of its users are baby boomers (born between 1946 and 1964), whereas teens are using other platforms, such as TikTok and YouTube, more frequently.

In addition, Facebook has been scrutinized because of how the company uses personal data. Six in ten social media users report that they've observed and temporarily believed something they've read on Facebook that turned out to be false information (Raymond, 2019).

In addition, there's a growing concern about the role that social media has played in dividing people. Fifty percent of users who are millennials say that Facebook fosters division, compared with only 38 percent of baby boomers (Raymond, 2019).

Facebook is still clearly the behemoth of social media platforms, and so long as it holds that position, marketers will continue to use it as a channel to deliver content and drive engagement with targeted customers.

Instagram

As a social media platform, Instagram's growth has exploded over the last decade. Although not as large as Facebook in terms of users, it still boasts 1 billion active users every month. Instagram attracts a younger demographic, mostly people under the age of 30, which makes it attractive for brands targeting this audience (Jackson, 2019).

The company previously known as Facebook purchased Instagram in 2012. The union of Facebook and Instagram under one corporate entity has provided synergistic benefits to users, companies included. First, social media allows users to cross-post on the two platforms. And second, this has the advantage of increasing reach and repetition of messages more efficiently.

From a social media advertising perspective, integrating Facebook and Instagram allows companies to manage and monitor campaigns across the two platforms easily. Furthermore, companies that have leveraged these integrative features have enjoyed stronger campaign performances in terms of clicks, views, and website conversions.

Spotify uses Instagram Stories brilliantly during its #yearwrapped campaign that drops every December. Instagram Stories lets users post photos and videos that disappear after 24 hours. It's become a very powerful sharing tool with more than 500 million users posting stories every day.

Spotify created a special webpage that presents visitors with their most listened to artists, songs, and other interesting insights related to their music habits over the year. Spotify gives visitors the option of sharing these highlights on other social platforms. This campaign has proved to be highly engaging, with more than 60 million Spotify users engaging with Spotify's Instagram Story and 3 billion #yearwrapped playlists streamed as a result of the campaign.

LinkedIn

For business professionals seeking networking, partnership, and employment opportunities, LinkedIn proves to be an excellent social media platform (see Figure 14.7). LinkedIn boasts 722 million users, who are known as members. Among social media platforms, LinkedIn is considered the most trusted, with 73% of members agreeing that LinkedIn protects members' privacy; new data is updated from 2024 (Newberry, 2024).



Figure 14.7 LinkedIn is a business professional platform that is used by marketers to reach consumers. (credit: "LinkedIn Pen" by Sheila Scarborough/flickr, CC BY 2.0)

LinkedIn Live is the platform's live streaming feature, which allows companies to engage directly with community members. Vimeo leveraged the feature when it held a "Working Lunch" series. Using a seminar format, it brought together experts across the business, communication, and technology industries and interested members. The goal was to engage with the audience, provide relevant information, and drive use and engagement of the platform.

Although not the largest social platform, LinkedIn most certainly serves as an important tool for connecting with business professionals in the B2B space.

Pinterest

With 478 million monthly users, Pinterest is a social platform that allows users to visually explore an endless array of ideas from recipes to home decor to crafts to personal style (Pinterest, n. d.). Users can use the platform's search bar to look for topics or people that interest them, which produces results related to search keywords.

For businesses, Pinterest offers a host of benefits as a social marketing tool. First, 97% of searches are unbranded (Pinterest, 2024). Simply put, consumers aren't looking for brand-specific content when browsing the platform. This is music to the ears of companies that can place their ads in Pinterest feeds near relevant content. For example, a user may search for "image of vintage running shoes" on Pinterest, which would result in a host of profiles featuring content related to the search terms. A well-placed

New Balance advertisement featuring its vintage 720 sneaker would be a strategic marketing move in this situation (see Figure 14.8).



Figure 14.8 A marketer could place a New Balance sneaker advertisement on Pinterest near unbranded searches. (credit: "New Balance Limited Edition Pink Ribbon 3190 Running Shoes" by slgckgc/flickr, CC BY 2.0)

Twitter

As a social platform, Twitter is a microblogging news and networking site where users typically post shorter messages known as tweets. After receiving complaints that 140 characters weren't enough room to express ideas, Twitter expanded its character limit from 140 to 270 in 2017. It has approximately 238 million daily active users, with about 14.5 million living in the United States. It has seen steady growth in international appeal, and new data is available for 2023 statistics (Statista, 2024).

Similar to LinkedIn, Twitter is a popular B2B digital marketing tool, with 67% of all B2B businesses using the platform to reach business customers (Lin, 2023). Twitter users have a high expectation that a company will respond to a tweet; therefore, marketers who choose this platform should be prepared to engage with users directly. Twitter's ownership and policy changes in 2022 led many people and companies to reconsider their relationship with the platform, but it will likely remain a major force in marketing and business for years to come.

Podcasts

Podcasts are often free, on-demand, downloadable audio recordings that cover a variety of topics and are typically made available on a weekly or monthly basis. Podcasts are distributed through applications such as Apple's Podcasts, Google Podcasts, Spotify, and Audible, but they can also be published on a company's website. Podcasting has been growing at a "hockey stick" rate—200% year-on-year growth (Radcliff, 2020). Recognizing a huge opportunity, Spotify acquired podcasting company Megaphone in 2020 (Spotify, 2020). The acquisition positions Spotify as the "go-to" platform for premium podcast content, which offers new opportunities for advertisers. In a world where people question information they are given, podcast hosts stand out because 52% of listeners trust advertising when endorsed by the host (Spotify Editorial Team, 2019). The hosts can offer brand endorsements and approvals in addition to stories that they bring to life via audio. Listeners take in what the host says and then build it out in their own minds. Podcast creators leverage social media platforms to drive traffic to applications and sites where the podcasts can be played or downloaded.

Podcasts can be an effective digital marketing tool when marketers want to hyper-target a niche audience with relevant topics. They are typically created to share educational information and often result in a good return on investment because of the value they create for loyal listeners.

eLearning company Harappa Education produces the *Habits Matter* podcast, which focuses on topics about learning and personal growth. Listeners are attracted to the series because they want to learn something new without the noise of a marketing message. Podcasts are effective at creating value, building relationships, and subtly engaging target audiences.

Link to Learning: Social Media Strategy

Social media marketing can be complex because of the variety of platforms and new features being constantly added. Check out this guide from HubSpot on how to develop a social media strategy.

Also, check out the *Habits Matter* podcast. Hosted by Shreyasi Singh, the *Habits Matter* podcast explores humanity at work. Check it out here at Apple or here at Spotify.

Social Media Marketing: Opportunities and Challenges

When marketers are considering social media as a digital marketing tool, they need to weigh its opportunities and challenges to determine if it's the right-fit channel for reaching targeted customers.

The major opportunities of social media marketing include reaching global customers, increasing brand awareness, engaging with targeted customers, and increasing website traffic. First, social media connects companies to billions of users across the globe. Because of this reach, companies can profitably connect with new and existing customers.

In addition, because of the billions of active users on social media, brands can increase awareness of their existence with targeted consumers. For example, a five-year-old swimsuit and beachwear company, Cupshe, had little to no brand recognition among U.S. consumers until it launched campaigns on Facebook and Instagram. In 2020, the company boasted $150 million in sales without a single storefront (McCann, 2021). Consumers were exposed to the brand via social media ads, which then drove them to the company's website to browse styles and make purchases.

In addition to increasing brand awareness, social platforms help brands engage directly with consumers. Mass forms of promotion, such as advertising, offer only one-way communication from the company to the customer. Social media platforms allow for multidirectional communication between the company, users, and brand communities.

Finally, social media drives traffic to company websites. Users see a sponsored advertisement in their news feed that is highly relevant to their interests and click on the content to learn more, browse inventory, and, ultimately, make a purchase.

The major challenge facing marketers who use social media to reach target audiences is a growing distrust of social media platforms in terms of what they do with our private information. In addition, social media marketing requires dedicated campaign managers who can post fresh content frequently, monitor engagement, and respond to comments. The third disadvantage is that although multidirectional dialogue between consumers and the company is an advantage, the comments cannot be controlled. Users can tarnish the company's brand name if they share negative experiences or opinions about the brand.

Link to Learning: What Goes Viral?

Why do some things go viral and others don't? Learn from BuzzFeed's publisher Dao Nguyen and her TED Talk on the tactics her team uses to make things go viral.



Integrated Social Media Marketing

Integrated social media marketing involves creating a clear, consistent, and synergistic message across all social media platforms. When consumers are presented with coordinated messages across social media platforms, brand awareness and purchase intention increase.

Mobile Marketing: Definition and Strategies

Mobile marketing is defined as the use of multiple digital marketing channels that are designed to reach consumers on their smartphones and tablets. Given the variety of digital tools that marketers use to engage with consumers, it's important to discuss how mobile device use impacts digital marketing strategies. Usage of mobile devices to access the internet and applications has steadily increased over the last ten years (Wilson, 2021). As mobile device technology and digital technology has improved, people are doing everything from refinancing their homes to buying cars online. Mobile device usage will continue to grow, and as consumers spend more time on mobile devices, marketers must adapt their strategies to meet consumers where they are.

There are currently 6.4 billion smartphone users worldwide, and usage is expected to continue to grow over the next decade (Hanko, 2022). In 2022, U.S. mobile advertising spend is expected to reach $137.13 billion, where it was $100 billion in 2021 (Oberlo, 2024). Given these compelling statistics, companies must be prepared with an effective mobile marketing strategy. Marketing for mobile devices is not the same as marketing for desktops. Consumers expect a more personalized experience when they engage with brands on their smartphones.

Elements of a successful mobile marketing strategy should include responsive design, mobile-friendly emails, app development, and memorable URLs.

Link to Learning: U.S. Mobile Advertising

To learn more about the predicted growth of mobile advertising in the United States, read this article from Oberlo. It states that U.S. spend is expected to grow 14% to $156 billion in 2023 and up to $174 billion in 2024.

Responsive Web Design

Responsive web design means that when people visit your website via their mobile device, the menus and content display in a way that is easy to read and engage with. Users don't need to pinch, expand, or scroll the screen to view content. Responsive web design became the standard in 2015 when Google announced that mobile-friendly websites would be prioritized over non-mobile-friendly designs in search results. Responsive web design is critical to ensuring that visitors have a good experience while navigating your website.

Mobile-Friendly Emails

Mobile-friendly emails are emails whose images, text, and links display in a user-friendly way when accessed via a mobile device. With 68% of emails being opened on mobile devices, responsive design is necessary to create a good user experience (Campaign Monitor, 2019). Similar to responsive web design, email content must display on mobile devices in a way that is simple for the user to consume.

One way that email marketers can meet mobile-friendly standards is to ensure that subject lines are between 41 and 50 characters. Subject lines should capture attention and paint a benefit for the subscriber. In addition, mobile-friendly emails often contain a pre-header, which is the first line of text in your email. It provides context for what the email contains. Finally, emails should be concise with a clear and easy-to-find call to action. Many emails contain buttons that link email viewers directly to the company's website. The button is typically rectangular and includes actionable language such as "Get Started" or "Shop the Sale."

Developing an App

For some companies, developing a mobile app is an important element in their mobile strategy. Because a shocking 90% of people's mobile usage is on smartphone apps, marketers must consider the value in creating one (Saccomani, 2022).

One benefit of developing a mobile app is that apps provide direct communication and engagement opportunities with customers at the touch of a button. Amazon's app, for example, makes it easy to search for and purchase products from mobile devices. The

alternative is for users to open their browser on their phone, type in the Amazon URL, and search directly from the mobile site. Apps make it convenient for consumers.

Short/Memorable URLs

An internet site's address on the web is technically known as a uniform resource locator (URL). In the digital world, you could have a great website with great content and a strong social media presence, but visitors cannot reach your website without a well-constructed URL.

Having a shorter, memorable URL is an important marketing tactic for the following reasons. First, it's easy for people to remember. Second, shorter URLs are easier to share, whether it's through email, text, or social media. Finally, optimizing the length of a URL makes it much easier for Google to find and display in search results.

There are a number of applications, such as TinyURL and Bitly, that are capable of turning long URLs into shorter ones; however, the jury is still out on whether search engines perceive these URLs as trustworthy.

Mobile Marketing: Opportunities and Challenges

Mobile marketing presents clear opportunities for digital marketers. First, mobile device usage continues to grow as consumers stratify their time across various devices at once. In addition, mobile devices allow people to experience almost constant connectivity that ignores the boundaries that traditional marketing channels must observe, such as time and place. For example, Nothing Bundt Cakes' store hours of operation might be 10:00 a.m. to 6:00 p.m. However, accessing its website to place an order can happen at any time of day from any location.

The shift in mobile usage behavior provides a number of opportunities for marketers to connect with consumers in a place where they are spending more and more time. Additionally, consumers are using mobile devices to conduct product research, view customer reviews, and interact with brands on social media platforms.

In addition to mobile marketing opportunities, this channel also presents challenges to digital marketers. The first challenge is finding the right mix of mobile channels to reach your target audience. For some companies, SMS texting makes sense because customers are open to receiving promotional messages via text. If the company has a mobile application, it may consider sending push notifications that alert users to important information when they aren't engaging with the app. Understanding your target audience is key to determining which mobile tools make the most sense.

A second challenge with mobile marketing is measuring results. Although companies can easily measure things such as in-app purchases and emails opened and clicked, it's more difficult for marketers to see whether someone has seen a push notification or in-app message.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following is an advantage of social media marketing?

a. Social media is highly targeted in its ability to reach segments of consumers who share common interests and demographics.
b. With social media, marketers have complete control of the message.
c. Social media is very easy to manage and requires few resources.
d. Social media is the best channel for the B2B market.

2.

Which of the following is a challenge that marketers face when using social media marketing?

a. Social media marketing does not allow companies to target multiple audiences at the same time.
b. Social media use is unpredictable, with users only logging in once or twice per week.
c. Companies do not have control over the message.
d. Social media does a poor job of driving traffic to websites.

3.

Which of the following is a characteristic of a good mobile strategy?

a. Mobile websites should have a responsive design so visitors have a good user experience.
b. Emails should be sent to consumers on a weekly basis to stay engaged with mobile users.
c. Avoid using push notification features to avoid overcommunicating with your users.
d. Measure whether or not a mobile device user has seen a push notification.

4.

When a company's website adapts to whatever screen consumers are using and users don't need to pinch, expand, or scroll the screen to view content, this is known as _____.

a. website design
b. responsive marketing
c. content marketing
d. responsive web design

5.

Which of the following represents a challenge for mobile marketing?

a. Mobile device usage is on the decline.
b. It's challenging to measure mobile marketing campaigns.
c. Responsive design is difficult to implement.
d. People are using email less and less.

Marketing in Practice: *National Geographic*

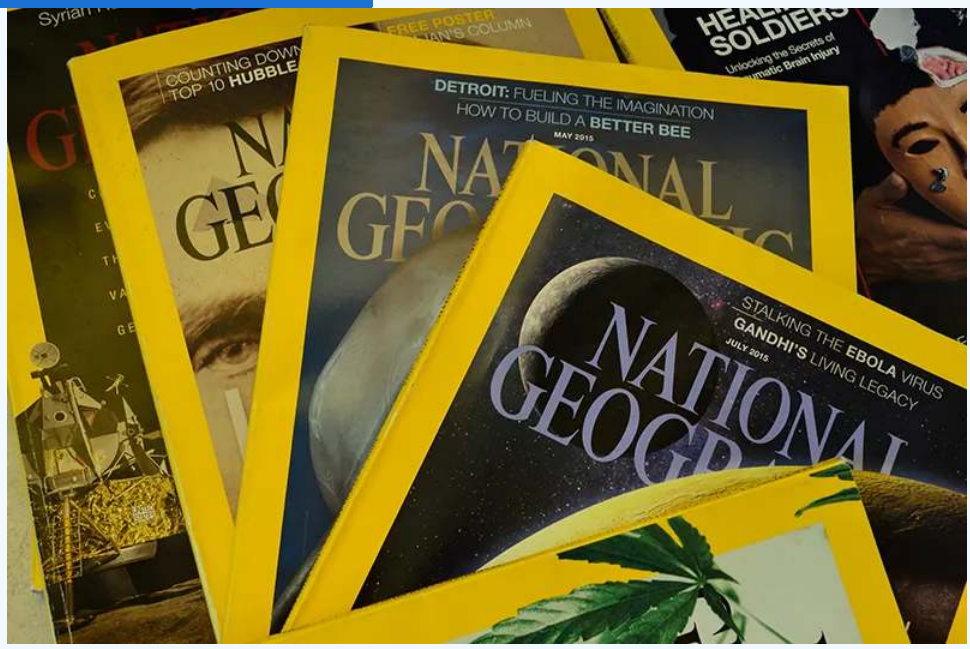


Figure 14.9 National Geographic has utilized Instagram for a promotional strategy as a way to share never-before-seen photographs. (credit: "National Geographic" by Open Grid Scheduler/Grid Engine/flickr, Public Domain)

National Geographic has over 220 million followers on Instagram, boasting the leading brand account on the site (National Geographic, 2020). It shares stunning images of people, places, animals, and natural landscapes from all over the world. As a visual storyteller, *National Geographic* captures some of the most awe-inspiring, unfiltered images that the world has ever seen (see Figure 14.9).

Instagram has served as an effective vehicle for sharing these images globally. *National Geographic* has utilized the platform to drive engagement with followers. Its famous "Wanderlust" social media campaign invites amateur photographers from around the world to post the best photographs they've taken while traveling (Oxford, 2015). Followers use the #wanderlustcontest hashtag to connect with the *National Geographic* community of travelers. Its strategy to promote user-generated content was a great way to connect with followers and build continuous engagement.

In addition to its Wanderlust campaign, *National Geographic* uses Instagram and other social media platforms to share content that is central to the brand's values. For example, on "The Endangered Species Day" and "The Oceans Day," it pushes content related to wildlife and nature protection using powerful images and statistics (NatGeoWild, 2015).

Through social media, *National Geographic* is able to share its passion for nature and wildlife with a community of like-minded people. As a tool, social media allows *National Geographic* to engage with followers in a personal way.

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14.5: Ethical Issues in Digital Marketing and Social Media

Learning Objectives

By the end of this section, you will be able to:

- Describe ethical issues with respect to digital marketing and social media.
- Explain why ethical issues exist.

Privacy, Transparency, and Awareness

Although digital marketing tools and social media provide online marketers with effective ways to engage with customers, build relationships, and drive consumers toward a purchase, there are ethical issues that marketers must consider when utilizing these tools.

First, because of the highly targeted capabilities of digital and social media, companies have access to large amounts of personal data, including name, email address, and phone number, as well as personal interests, social and political views, and shopping behavior. Consumers are increasingly concerned about data privacy. In a recent survey by KPMG, 86% of the respondents have a growing concern about data privacy, and 78% fear the amount of data being collected (Whitney, 2021).

Given this growth in distrust of how personal data is handled, some companies have responded with updated policies designed to be more transparent about how data will be used. Seventy-five percent of consumers polled reported that they want increased transparency (Whitney, 2021).

In 2021, Apple released features for iPhone and iPad users that allow consumers to have stronger control of how their data is used (Price, 2022). Using pop-ups, Apple device users can allow or disallow companies to track their activity across apps and the websites they link to. This move by Apple resulted in some back-and-forth commentary by Meta's Mark Zuckerberg and Apple CEO Tim Cook. Tech companies such as Facebook and Google depend on being able to target the advertising on their applications to users using personal data. Giving greater privacy control to iPhone users presents a threat to the core of their business models.

Social media platforms, in particular, mine personal data and then use it to sell advertising space on news feeds of consumers who match the demographics and psychographics of a company's target market. With nearly 71% of social media users taking the time to check their privacy settings on social media, it's clear that this issue is front and center for most users (Suciu, 2020). Companies can respect their users' privacy by being transparent about what data they collect and how they use it.

Tracking Consumer Data

The reality is that it's not just social media companies and search engines that track consumer data. Most companies use tracking codes to follow consumers and data about them as they navigate the web. Zoho, a productivity and collaboration app, reported that in the B2B space, about 72% of businesses do not inform customers that they are being tracked by third parties (Business Wire, 2020).

The Use of Client Reviews

Client reviews involve feedback that a customer or client posts directly to a platform that can accessed by consumers during the buying process. Companies that use client or customer reviews include Amazon.com, Wayfair, and Lands' End. Customers typically rate their experience with the product by assigning stars and commenting on their satisfaction.

Reviews can be helpful to consumers during the search phase of the buying process because reviews provide a real-world glimpse into the favorability of a product. For example, Wayfair invites customers to post pictures of items such as sofas and end tables once a customer has styled the room. This provides shoppers with a real-life view of the product, its color, and its size, among other things.

Beyond the reviews on e-commerce sites, Google is a major player in the customer review space. Consumers often rely on Google reviews when deciding whether to hire a local business. In addition to Google, consumers can find reviews for travel on Tripadvisor, restaurant reviews on Zomato, and reviews of software programs on G2.

Marketers recognize the power of customer reviews as a digital promotional tool, as consumers report that they perceive reviews as more credible than messages created by the company itself.

Companies with a Conscience: Apple's Taking Big Steps to Protect Privacy

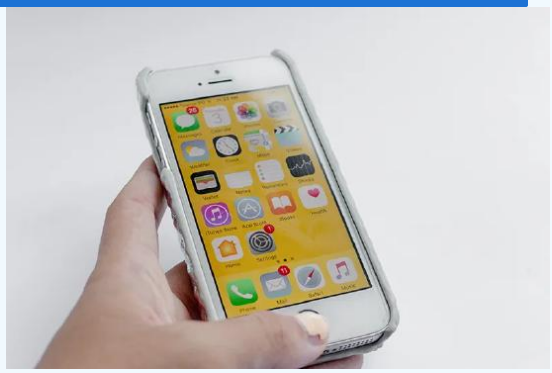


Figure 14.11 Apple is employing several steps to further protect consumers and their personal data. (credit: "iPhone 5s Applications" by Marco Verch/flickr, CC BY 2.0)

In January 2022, Apple took one of its most impactful steps toward protecting the privacy of iCloud users, the iCloud Private Relay (see Figure 14.11) (Apple, 2023a). When enabled on Apple devices, this feature hides a user's IP address from the websites they visit, essentially masking a user's entire online footprint.

The privacy feature is a game changer in the digital marketing space, as companies such as Meta and Google depend on seeing a consumer's online journey to learn more about who they are and their interests. Tracking online activity allows companies to serve users with relevant marketing messages and offerings.

In addition to the privacy relay, Apple also released "Hide My Email," which allows Apple device users to enter a unique email address on websites without sharing their actual email address (Apple, 2023b). Emails sent to a randomly generated address are then forwarded to a user's inbox, thereby hiding a user's actual email address.

Finally, Apple has updated its Mail app to prevent marketers from tracking whether or not someone has opened an email (Kaczanowski, 2022). Email marketers measure the percentage of people who open marketing emails to determine their engagement level and the email's effectiveness.

Apple appears to be taking consumer privacy to another level. Offering a collection of privacy-centric features equips consumers with tools to protect their personal information and navigate the web unseen.

Check out Apple's website to learn more about iCloud Private Relay. Also, read about it in this *Wired* article.

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14.6: Sales Promotion and Its Role in the Promotion Mix

Learning Objectives

By the end of this section, you will be able to

- Define sales promotion.
- Discuss the importance of sales promotion in the promotion mix.

Sales Promotion

Sales promotion is a promotional strategy focused on inducing sales in the short term. Of all the promotional activities, sales promotion is solely focused on a direct call to action to buy something. Sales promotion can be targeted to intermediaries through a push strategy or directly to consumers through a pull strategy. Marketers often use sales promotion in tandem with other promotional strategies. When McDonald's advertises, for example, "Free fries on Friday when you purchase a menu item through the app," it is using advertising along with sales promotion to induce consumers to use the app and increase sales on Fridays.

When products are at the introductory stage of the product life cycle, sales promotion can effectively induce a product's trial. The greater the competition, the more a sales promotion strategy becomes important for getting consumers to switch or try a new or different product. Product manufacturers often use in-store sales promotions to set apart the brand or product at the time of purchase. Walking past the cheese aisle at the grocery store, you might see Sargento offering a buy-one-get-one (BOGO) deal. This sales promotion is geared toward getting the customer to buy more of Sargento or possibly try Sargento for the first time.

Importance of Sales Promotion in the Promotion Mix

Many of the strategies in the promotion mix are informative in nature. However, when other strategies are combined with sales promotion, there is a direct and immediate call to action to purchase the product. Companies needing to create sales in the short term will benefit from sales promotion. Utilizing sales promotion is a very effective strategy for generating trial of a product in the introductory stages of the product life cycle (PLC).

Spreading of Information

Sales promotion is very effective at spreading information about new products and product modifications. Creating awareness of the brand to new markets and customers is another effective use of sales promotion.

When MyPillow has an advertorial during Fox News and provides a code for a reduced price of its renowned pillows, the advertorial serves to tell new customers about the products as well as provide an incentive to purchase the product immediately.

Stimulation of Demand

A key element to good sales promotion is that it stimulates sales in the short term. Sales promotion gives customers an immediate incentive to purchase a product.

Sonic Drive-In (see Figure 14.3) offers half-price drinks and slushes every day from 2:00 to 4:00 as a "happy hour" special. This sales promotion tactic does two things: first, it incentivizes consumers to buy drinks, and second, it provides sales during the slow times of the day.



Figure 14.3 Sonic Drive-In uses a half-price sales promotion to stimulate sales during slow times of the day. (credit: "Sonic Drive In and Eat In Restaurant, Bristol CT 5/2014" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Customer Satisfaction

Today's customer is presented with thousands of messages. Companies are driven to get noticed, increase sales, and satisfy their customers. Sales promotions are one method a company may use to increase customer satisfaction. A survey from RetailMeNot "showed that coupons can affect brain chemistry and make customers happier." The research concluded that an online shopper who received a $10 coupon was 11% happier and had 38% higher oxytocin levels than those who didn't get a discount (Dooley, 2012). Providing the occasional discount can chemically make a customer happier, resulting in a more satisfied customer, who may spend more in the future and become a loyal shopper (Hwang, 2017).

Stabilization of Sales Volume

Sales promotion can also be used to help stabilize sales volume. Because sales promotion incentivizes product purchases in the short term, companies often use this promotional tactic to drive sales and meet targets. Typical sales promotion tactics used to increase sales include buy-one-get-one-half-off and other specific discounts available when used by a certain time. The time element gives the company the target for the sale, and the customer is given an incentive to purchase by a certain time.

Marketing Dashboard: Cost of Customer Acquisition

We often think about profitability based on the difference between what we spend to create a product or service and the amount a customer pays for that product or service. However, we have to remember that there are costs to acquiring customers. In this chapter, you learned about two promotional activities that create costs to reach customers: sales and sales promotion.

Within the sales process, an organization pays a salesperson a salary and/or commission to make sales. This is an example of a cost to acquire a customer. As you can imagine, we want our cost to acquire to stay low. For example, if we sold multimillion-dollar airplanes, it would be reasonable to spend thousands of dollars on a salesperson to make that sale. However, if we were selling several-hundred-dollar televisions, our cost to acquire a customer must be much lower.

Sales promotion is another promotional expense. For example, if a pizza brand provides samples at Costco, this might encourage a customer to purchase pizza. And if that customer keeps buying pizza, the cost of the pizza sample was worth it for the value that the customer will bring over the life of the relationship. Other categories of promotional costs include advertising, public relations, social media, search, and direct marketing.

The formula for cost of acquisition is the total cost of marketing activities divided by number of customers acquired.

$$\text{Cost of Acquistion} = \text{mfrac}$$

In this formula, you will see an assumption that all customers are worth the same amount, but as savvy marketers, we know that this is untrue. This is why we must use a variety of marketing metrics when evaluating campaigns.

Give the cost of acquisition calculation a try for yourself. What is the cost of acquisition in the example provided below?

Type of Promotion	Expense	Yield
Television Advertising	$1,250,000	400,000 customers
Catalog Mailing	$750,000	250,000 customers
Search Engine Marketing	$550,000	90,000 customers
Outdoor Activation	$1,500,000	70,000 customers
Ad Agency Fees	$600,000	0 customers
TOTAL	$4,650,000	810,000 customers

Table 14.1

Answer

Solution

$$\$5.74 \text{ per customer}$$

Formula:

$$\$4{,}650{,}000/810{,}000$$

What additional information do you need to determine whether the cost of acquisition is appropriate for the product or service?

Answer

Solution

The price of the product/service, total sales, expenses, and margins associated with the product or service

Let's suppose that this example is for a national bookseller. The bookseller has an average profit per customer of $90 over the customer's lifetime. Would the cost per acquisition that you calculated provide a good value for the bookseller? Why or why not?

Answer

Solution

Yes. It is worth it to spend $5.74 to acquire a customer worth $90 on average over the lifespan of the relationship;

$$\$90 > \$5.74$$

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The retail store Ann Taylor is offering 75% off if you order online today and sign up to receive the newsletter. This is an example of what promotional mix strategy?

a. Advertising
b. Personal selling
c. Public relations
d. Sales promotion

2.

When Starbucks has a happy hour special from 2:00 to 4:00 and drinks are half-price, what is the purpose of the sales promotion?

a. Lose money
b. Stimulate demand
c. Spread information
d. Increase customer satisfaction

3.

Rolex calls itself the “Official Timekeeper” of the Wimbledon and Australian Open tennis championships by virtue of its sponsorships of the marquee events. What is the most likely objective for Rolex’s sponsorship deal with these events?

a. Lose money
b. Stimulate demand
c. Spread information
d. Increase customer satisfaction

4.

Sales promotion consists of a collection of incentive tools designed to do what for the product?

a. Stimulate demand
b. Create brand awareness
c. Provide free publicity
d. Inform

5.

Sally loves to receive her coupons from American Eagle. She typically looks in her email every day to see what promotions the company will be sending. The American Eagle sales promotions are helping to accomplish which important task?

a. Increased customer satisfaction
b. Providing information
c. Increasing brand awareness
d. Developing junk mail

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14.7: Ethical Issues in Personal Selling and Sales Promotion

Learning Objectives

By the end of this section, you will be able to

- Discuss the ethical issues that may arise in personal selling.
- Discuss the ethical issues that may arise in sales promotion.

Ethical Issues in Personal Selling

The goal of sales is to create customer loyalty and repeat purchases. Developing the relationship with the customer is best done through honesty and integrity. Sales should always be conducted with a long-term goal of developing a lifetime customer and not just one sale.

However, with sales goals as the driving force behind the sales activities, the sales force can be pressured into practices that might be counter to building customer loyalty. Without proper regulation and a code of ethics, sales efforts can run afoul of ethical rules. Good sales managers seek to have control features built in to prevent the temptation to have a climate of dishonesty.

Ethical issues that can arise within the sales function of a company include dishonest claims about a product, slanderous comments about the competition, padding of company expense accounts and misuse of the expense account, artificially inflating sales data to meet goals and bonuses, and bribes and kickbacks.

Sales professionals are typically self-starters out in the field working with their customers. In a sales role, companies provide sales professionals with expense accounts and credit cards to work with and build relationships with clients. Without close supervision and company policies and guidelines, the sales professional can be tempted to participate in unethical practices. If a code of conduct is not present, it is often hard to resist the temptations. Some of the most common practices and temptations include misuse of the company credit card, inflating sales to reach goals, and receiving kickbacks.

Misuse of Company Credit Cards or Expense Accounts

Misuse of company credit cards and expense accounts can happen with any employee, but given the solitary nature of the sales professional, it is typically prone to happen more often with them. Because the work of the sales professional is fairly independent from the rest of the organization, it can create situations where there isn't enough accountability. Misuse can happen through double billing, padding the expense account, or overcharging for expensed items.

To handle issues of expense misuse, it is best to have policies and procedures in place, along with a record of accounting for expenses and providing receipts for all expensed items.

Inflating Sales Data

Because sales professionals are often given sales targets and expectations to meet the targets, they are at risk of finding methods of inflating their sales numbers to meet the targets. If the sales professional gets behind or feels pressure to meet goals, it can be appealing to find methods of showing goal achievement. The method of inflating sales can also be termed channel stuffing. This practice happens when a company forces more products through the distribution channel than the channel is actually capable of selling.

When the sales organization calculates the sales targets based on shipments of products, the method of channel stuffing helps to meet the targets in the short term. However, long-term sales targets are adversely affected, especially if the channel partners return the products.

An example of how this might happen can be explained through a company that sells over-the-counter medicines. If it has products with an expiration date in a few months, it may ship all of the products with the near-term expiration date. When the products don't sell within the expiration time frame, the products are shipped back for a return. The sales in the short term where high, and the targets were met. However, in the long term, the company faces a large shipment of returned product.

To meet sales goals and targets, Wells Fargo employees created millions of fraudulent savings and checking accounts for clients without their consent. Regulatory agencies such as the Consumer Financial Protection Bureau (CFPB) penalized the company and

fined it $185 million for the illegal activity.[11]

Accepting Kickbacks

Another unethical practice is when sales professionals accept kickbacks. There are many forms of kickbacks. Companies that deal internationally are often at the biggest risk for kickbacks, as it is common practice in some countries. Sales professionals who have long-term relationships can be tempted to take advantage of the situation, particularly if both sides profit from the scheme. There are many types of kickback schemes. Primarily, a kickback scheme involves two people who work together to change the pricing structure, and in turn, they both generally pocket some profit from the sale. Under the 1977 Foreign Corrupt Practices Act (FCPA), it is unlawful to pay or promise to pay another person for the purpose of retaining their business.

Companies with a Conscience: Tentree

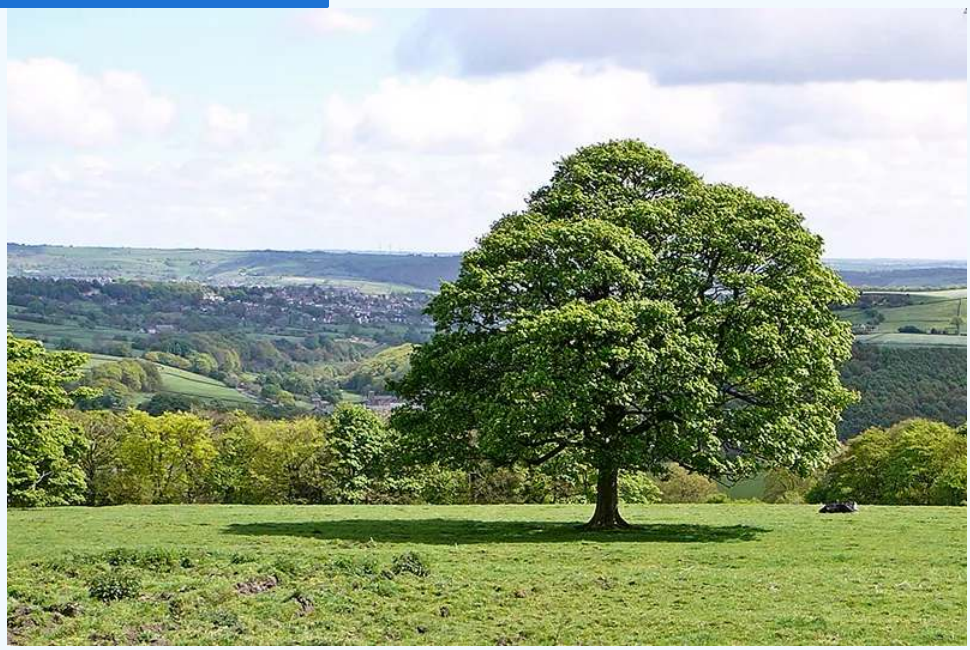


Figure 14.5 Tentree runs consumer-oriented promotions in which it plants 10 trees for every purchase made. (credit: "Tree Near Barkisland" by Tim Green/flickr, CC BY 2.0)

Tentree is a sustainable clothing brand. Like many online stores and clothing brands, it regularly runs promotions, including a percentage off the purchase price when you sign up for their newsletter. But along with the typical consumer-oriented promotions, Tentree also plants 10 trees for every purchase (see Figure 14.5).

According to Tentree's Facebook page, "We believe that big change starts small. Small as in bringing your reusable tote to the grocery store, getting your coffee refilled in a thermos, and choosing to wear sustainably made T-shirts. These small choices add up (trust us, we've done the math), and we're here to celebrate each and every one of them. By planting 10 trees for every purchase, we hope to make big change accessible to everybody and show the lasting impact that one small choice can have" (Tentree, 2024).

So far, the company has planted over 81 million trees. The clothing it manufactures and sells is designed to have a very small environmental impact. And consumers are incentivized to purchase from Tentree because for every item purchased, the company plants 10 trees. Tentree has a goal that customers are pushing to reach—1 billion trees planted by 2030 (Tentree, 2021). Its earth-first philosophy is at the heart of every garment it sells.

Ethical Issues in Sales Promotions

When it comes to sales promotions, many ethical issues can arise. One of the most well-known issues with sales promotion happened with a popular McDonald's game (see Figure 14.6). For years, McDonald's ran its Monopoly game as a method to increase the consumer purchase of meals along with Monopoly game pieces that could net customers winnings from the fast-food giant. Not only was the game popular with customers, but it did exactly what the sales promotion was supposed to do: it increased

sales. Unfortunately, the head of security for the company that ran the promotion and printed the game pieces took out all the winning game pieces in a scam worth $24 million (Huddleston, 2020).



Figure 14.6 McDonald's Monopoly game was an effective consumer-oriented promotion that resulted in a $24 million scam. (credit: "McDonald's Monopoly 2014" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Hidden Fees

One of the most common issues with ethics in sales promotion is in hidden fees that might be tacked on to the promotion. The travel and hospitality industry can be an example of the hidden fees often found in the fine print for the unwary customer looking for a "deal." An airline might have advertised prices, but upon booking, the traveler may realize the baggage and airport fees make the price higher than other advertised rates. This can also be a common practice with hotels and resorts. The advertised price may look appealing, and the sales promotion may seem like a good deal, but by the time resort fees are tacked on to the price, the promotional discount isn't as attractive.

Ambiguous Terms and Conditions

Legal documents have long been considered tricky to maneuver. A company may provide the terms and conditions and a link to click or simply acknowledge that you have read through the 15,000-word document for understanding. But does anybody really read the documents? Do consumers really understand what they are reading and agreeing to? Most likely, the legal jargon has gone unread, and the customer is typically unaware of what they have agreed to. However, it is in the company's best interest to look out for the best interests of its customers. If the end goal is long-term customer satisfaction, all of the company's work should focus on ensuring the customer is satisfied. Providing ambiguous terms and conditions really does nothing to protect the customer relationship.

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14.8: Main Types of Sales Promotion

Learning Objectives

By the end of this section, you will be able to:

- Discuss the primary types of consumer-oriented sales promotion.
- Discuss the primary types of trade-oriented sales promotion.

Consumer-Oriented Sales Promotion

Sales promotion can be categorized in two ways. The first category of sales promotion is consumer-oriented, which focuses on the consumer pulling the product through the marketing channels. The second category is trade-oriented, which is intended to push the product through the channel to the consumer.

Consumer-oriented sales promotion gives the customer an immediate inducement to purchase a product. The goal is to have the consumer seek out the product and "pull it" through the marketing channel. There are many common forms of consumer-oriented sales promotion.

Coupons

The goal of coupons is to reduce the product's price and prompt the consumer to make an immediate purchase. The major goal is to increase sales quickly, attract repeat purchases, or try new product versions. Consumers using coupons recognize the savings when they relinquish the coupon at the time of purchase. Coupons come in many different forms, including printed, digital, and mobile. Because a coupon has to be redeemed to obtain the reward, manufacturers can determine the effectiveness of the coupon offer and the delivery method.

The company HelloFresh sends a direct mail piece with a coupon for 16 free meals. When consumers sign up for the home delivery meal plan, this is a great example of how a coupon might be used to create brand awareness and acquire new customers. The direct mail might also include a code to use online for the digital application of the offer.

Samples

Samples are most often used to induce trial of a new product. This tactic can be very effective in increasing sales volume during the early stages of the product life cycle and helping with better distribution. Samples can be given out in stores, at events, or through the mail. This is an expensive form of sales promotion but can be highly effective at inducing purchase. Costco regularly has samples within its aisles and at the immediate point of sale as consumers are shopping. Another example is from the 2022 SXSW conference in Austin, Texas, when Creminelli Fine Meats distributed free mini packs of salami to showcase the company's line of "charcuterie-grade snacking" products. The makers of White Claw Hard Seltzer were corporate sponsors of the event; conference-goers were treated to free samples of new flavors, such as Passion Fruit (Cruz, 2022).

Premiums

Premiums are items offered free or at a minimum cost alongside the purchase of a product. Some of the most famous premiums include the McDonald's Happy Meal toys and Cracker Jack ("The more you eat the more you want") with a prize inside (Huddleston, 2020). Premiums are very good for attracting new buyers and incentivizing customer loyalty. Using the Happy Meal toy created significant customer loyalty among consumers who wanted to collect all the toys in a series.

Contests

Contests make consumers use their skills to compete for prizes. Using contests allows customers to engage with products and become invested in trying to win something of value. Companies often use contests in coordination with other sales promotion tactics, such as coupons. Doritos regularly includes a contest as part of its advertising. Pepperidge Farm challenged consumers to #GoForTheHandful and create an Instagram duet with pro basketball player Boban Marjanović. The goal was to see if consumers could hold more Goldfish crackers in their tiny hands than the large hands of the pro basketball player. Winners were treated to Goldfish for a year and the title of Official Goldfish Spokeshand (Miller-McNatt, 2021). Contests are based on analytical or creative skills.

Sweepstakes

Where contests are based on skill, sweepstakes are based on chance. Companies use sweepstakes to increase sales volume in the short term. Sweepstakes ask contestants to submit their names for inclusion in a drawing for prizes. Publishers Clearing House conducts one of the most well-known sweepstakes. The company ultimately wants consumers to order magazines; however, purchasing a magazine is not necessary to enter and win the $1 million cash prize. However, Publishers Clearing House is able to add to its mailing list when consumers enter to win.

Loyalty Programs

Loyalty programs have increased in popularity. Most of today's loyalty programs are tied to a mobile app. The attractiveness of loyalty programs is that when consumers spend, they get points toward something free. For example, Wired Coffee Bar offers consumers $5 off of a product in-store when they spend $50.

Point-of-Purchase Displays

Point-of-purchase displays have been a hallmark in store aisles for decades. The point-of-purchase display allows manufacturers to showcase their products in a way that stands out from all the other products in the store. Companies typically utilize the point-of-purchase promotion method for new products being introduced to the market. Some common point-of-purchase presentations include outdoor signs, window displays, countertop containers, display racks, and self-serve cartons. The key to a good point-of-purchase is a display that attracts customers and enhances the product's brand image.

Rebates

Rebates provide some reimbursement for the cost of a product when the consumer completes certain information about the time, place, and price of the product purchased. Typically, the consumer must submit the rebate form by a certain date and include receipts or bar codes from the purchase. Rebates usually induce the consumer to buy the product as it is being offered at a perceived cheaper price. Consumers often fail to submit the required materials for the rebate, as they might see the process as too laborious.

Marketing in Practice: Domino's



Figure 14.4 Companies will often use national days for sales-oriented promotions, like Domino's does on National Pizza Day. (credit: "Domino's Pizza delivery bikes" by Erica Fischer/flickr, CC BY 2.0)

Companies use sales promotion to generate more sales and to promote their brands. Setting up special days for certain products and causes can help bring focus and attention aandboost sales or donations in the short term. For example, days such as National Coffee Day, National Pet Adoption Day, and National Pizza Day put a spotlight on the product or cause and can work to create a news story that helps to generate consumer interest.

During National Pizza Day, companies selling pizza will run various promotions to sell more pizza and get consumers across the country to eat pizza. Although Domino's Pizza regularly runs discounts and promotions, most are "deals" that consumers

can use regularly (see Figure 14.4). Pizza delivery companies regularly utilize sales promotion strategies to deal with the highly competitive nature of the pizza delivery industry.

For National Pizza Day 2022, Domino's, a company known for fast pizza delivery, ran an unusual sales promotion offering cash back if consumers picked up their pizza instead of having it delivered. For a limited time, Domino's, the world's largest pizza chain, offered to give consumers back $3 when they opted to pick up their pizza instead of having it delivered. "The $3 coupon was redeemable the following week on another carryout order of $5 or more before tax and gratuity" (Breen, 2022)

Trade-Oriented Sales Promotion

Trade-oriented sales promotion is focused on the channel intermediaries: the wholesalers and retailers. The goal is for the intermediary to be incentivized to push the product to the consumer.

Allowances and Discounts

Manufacturers provide the retailers or wholesalers with allowances to pass along in the form of price breaks to the end customer. For example, Ford Motor Company might offer a $3,000 trade-in allowance for the new F-150. This is an incentive to come into the dealership and buy the F-150. The dealer has the allowance from Ford and can pass the savings to the consumer as an incentive to come in and buy a new truck.

Cooperative Advertising

Advertising can be expensive for retailers. Typically, they advertise products they have in stock to induce consumers to come in and make a purchase. Cooperative advertising is a way for manufacturers to help with the cost of the advertising in exchange for the retailer to advertise the products produced by the manufacturer. When supermarket chain Publix advertises Boar's Head meats and cheeses, Publix uses cooperative advertising from Boar's Head to run the ads featuring Boar's Head products.

Cash Bonuses

Some manufacturers provide bonus cash as an incentive for the retail sales associates to push the manufacturers' products. Bonuses can be given to the sales associate who sells the most or to the store that is the highest sales producer. It is then up to the store to determine how best to use the cash bonus.

Credit Terms

One way manufacturers can help the retailers and wholesalers who sell their products is to provide them with favorable credit terms. Often these terms allow the wholesaler or retailer to sell the products long before actually having to pay for the product.

Dealer Conferences

When companies have dealers who distribute their products, they want to incentivize the dealer sales force to sell the product. Additionally, dealer conferences are a good method of training and educating dealers to work with customers and ultimately sell the product to them.

Push Incentives

Push incentives work to create demand for a product through discounts that retailers pass on to customers. In the mobile phone industry, Apple may provide a discount on phones through one of its retail partners to encourage buyers to choose the iPhone through the distributor. Push strategies focus on selling directly to the customer. Typical tactics include point-of-sale displays and direct approaches from the retail store sales professionals to the customers.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

_____ are certificates that entitle the bearer to a stated saving on the purchase of a specific product.

a. Samples
b. Coupons

c. Rebates
d. Premiums

2.

Which of the following consumer promotion tools offers a free amount of a product or service delivered door-to-door, sent in the mail, picked up in a store, attached to another product, or featured in an advertising offer?

a. Coupons
b. Rebates
c. Premiums
d. Samples

3.

Which of the following allows consumers to do things to have a chance of winning?

a. Coupons
b. Sweepstakes
c. Contests
d. Rebates

4.

Which of the following is an example of a trade promotion?

a. Allowances and discounts
b. Coupons
c. Loyalty programs
d. Premiums

5.

Which of the following elements of the marketing communications mix consists of a collection of incentive tools, mostly short-term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade?

a. Advertising
b. Personal selling
c. Public relations
d. Sales promotion

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CHAPTER OVERVIEW

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15.1: Biblical Insight



Applying the Bible to Business

In the vocation of management, we are entrusted with significant responsibility. The Holy Scriptures show us that, with this responsibility, much will be required of us, “From everyone who has been given much, much will be demanded; and from the one who has been entrusted with much, much more will be asked” (Luke 12:48). The vocation of management is important, without good management, complex enterprises tend to become chaotic in ways that threaten their very existence. Good management brings a degree of order and consistency to key dimensions like the quality and profitability of products. Management is about coping with complexity (Kotter, 2001).

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15.2: Why It Matters- Managing Process

Why explain how operations management contributes to organizational success?

Operations management is just what it sounds like: managing the operations of the business. The role of an operations manager is broad and encompasses multiple operational areas. While other employees can focus on a specialized area of operation (for example, finance and marketing), an operations manager wears many hats and does a bit of everything. While the term may be unfamiliar, you have probably already seen operations management in action—it even played a role in creating the beautiful turkey dinner in the photo below.



What does it take to make Thanksgiving dinner happen? Planning, scheduling, technology, logistics, supply chain management, quality assurance—all the aspects of operations management. As an overview of this module, let's take Turkey Day as an example:

- ***Planning***. Turkey dinner for fifteen people doesn't just happen. It takes careful planning and possibly delegating tasks and duties to others. Who sets the table? Who brings the green bean casserole? What time should everyone arrive?
- ***Scheduling***. A turkey can take up to six hours to cook, and if you have only one oven, you'll need to schedule what time the bird goes in and comes out so the rolls and sweet potatoes get a turn in the oven.
- ***Technology***. You'll need an oven (or maybe a high-tech turkey fryer) and any number of cooking gadgets. Even the humble thermometer counts as technology. Unless you're preparing a raw, paleo Thanksgiving dinner, technology will be essential.
- ***Logistics***. Fifteen people won't all fit around your current table. What should you do? Seat the children at a card table? Rent a larger table? And where should Uncle Stanley sit so he can't pick a fight with your spouse or your dad? Logistics, logistics.
- ***Supply Chain Management.*** Aunt Sue is bringing pies, Bob is responsible for rolls, and Margaret is bringing the green beans. The host has to secure a fresh turkey before they sell out at the grocery store. If you live in the South, you'll want to call the local fisherman and reserve some oysters for the oyster dressing. All are important components of the supply chain—leave one out, and you'll miss a dish.
- ***Quality Assurance***. Anyone who cooks knows you must taste, season, and taste again to ensure the food is up to snuff. Quality assurance might also include asking Jean to bring drinks and flowers because she's a terrible cook.

Any undertaking that involves coordinating effort, tasks, and resources can be considered operations management. In this module, you'll learn how operations management works in both manufacturing and service industries—in short, you'll see how others get their turkey on the table.

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15.3: Operations Management

What you'll learn to do: explain operations management in the production of goods and services

In this section, you'll get an introduction to the key concepts and functions of operations management.

Learning Objectives

- Explain the role of the operations manager
- Explain how operations management relates to the service industry

Operations Management



A good way to look at processes and operations is to examine the impact of the global pandemic in 2020–2023. Americans began to understand the significance of supply channels and operations when getting important household supplies. During the worldwide pandemic, it became clear that global supply chains were propagating microshocks into macro-level effects. For example, individual firms halted operations due to the spread of COVID-19, which created sectoral supply shocks that drove up prices. In the transportation and logistics industry specifically, a series of supply chain disruptions and delays at ports during the pandemic led to historically high prices for imports to the United States during the pandemic. At their highest point, spot shipping prices for containers coming from China to U.S. West Coast ports skyrocketed to more than 1000 percent of 2019 levels. Elevated demand pressures compounded the inflationary effect from the supply side as consumers directed their spending towards goods, not services (2023, par. 3). Let's begin our study of processes and operations by defining some key terms you will use throughout this module.

Operations management is the area of management concerned with designing and controlling the processes of producing goods and services. It involves ensuring that business operations are efficient in terms of using as few resources as needed and effective in terms of meeting customer requirements. Put differently, operations management is concerned with managing the process that converts inputs (raw materials, labor, and energy) into outputs (in the form of goods and services). That process can be as simple as milling trees into lumber or as complex as building an international space station.

An **operations manager** is in charge of making sure that production processes run smoothly. That includes fine-tuning production processes to ensure quality, holding down the costs of materials and labor, and cutting costs that don't add value to the finished product. As you might expect, the role of an operations manager is broad, encompassing many operational areas. Whereas other managers may focus on a specific area, such as finance, accounting, or human resources, an operations manager interacts with every functional area within the organization. This is because operations management includes so many different kinds of tasks—logistics, budgeting, supplier relations, purchasing, staffing, and many more. As globalization has increased competition, the operations manager's job responsibilities have increased in both scope and importance.

Operations Management in the Service Industry

In businesses that produce services, the need for operations management may seem less obvious because they don't produce tangible goods. Operations management is all about transformation, though—taking inputs and transforming them into outputs—involving suppliers, supply chains, and logistics. All of these things are present in service industries. Consider how "operations" play out in a service business—let's say, in a theme park like Wally World. Although the company doesn't manufacture products, it is still producing an experience. The following breakdown gives you an idea of how and why operations management is so important to this kind of business:

- How do you control the crowds? How many guests should be let into the park before the line to ride the Tea Cups is intolerably long?
- How many cars should be attached to the Cyclone of Doom rollercoaster to maximize the number of riders and ensure their safety and security?
- For the July 4th weekend, how many tons of ice cream need to be ordered to supply all the ice cream carts and keep all the hot, tired, and hungry patrons happy?
- Where do you purchase the park's supplies? That's everything from souvenir cups with Wally's picture to paper plates and napkins for the restaurants.
- How do you staff entrances and exits? How much security is enough to let guests feel comfortable letting their children roam around?
- How do you manage the operations of this type of business that produces fun as its primary product?

YouThe White House (2023, November 30) *Issue Brief: Supply Chain Resilience | CEA* The White House https://www.whitehouse.gov/cea/writt...in-resilience/ hire an operations manager!

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15.4: Production Processes

What you'll learn to do: describe the four main categories of production processes

Even though you may not spend much time thinking about the processes used to make different products, they surround you daily. Every time you come in your front door or eat a meal or even drive your car, you interact with things that were made by combinations of job-based, batch, mass, and flow production processes: they were all produced or manufactured by someone somewhere, and a great deal of thought and planning were needed to make them available.

Businesses know what they want to produce, but the challenge is to select a process that will maximize the productivity and efficiency of production. Senior management looks to their operations managers to inform this decision. As we examine the four major types of production processes, keep in mind that the most successful organizations are those that have their process and product aligned.

Learning Objectives

- Describe batch production
- Describe mass production

Project- or Job-Based Production

Project-based production is one-of-a-kind production in which only one unit is manufactured at a time. This type of production is often used for very large projects or individual customers. Because the customer's needs and preferences play such a decisive role in the final output, the operations manager must maintain open and frequent communication with that customer. The workers involved in this type of production are highly skilled or specialists in their field.

The following are examples of project- or job-based production:

- custom home construction
- haircuts
- yachts

Consider the home in which you live. When the house was built, the contractor used a job process, and highly skilled workers were brought in to install the plumbing, heating, and electrical systems.

Custom Prints

For example, a print shop may handle a variety of projects, including newsletters, brochures, stationery, and reports. Each print job varies in quantity, type of printing process, binding, color of ink, and type of paper. A manufacturing firm that produces goods in response to customer orders is called a job shop.

Some types of service businesses also deliver customized services. Doctors, for instance, must consider the illnesses and circumstances of each individual patient before developing a personalized treatment plan. Real estate agents may develop a customized service plan for each customer based on the type of house the person is selling or wants to buy.

Advantages

- Unique, high-quality products are made.
- Workers are often more motivated and take pride in their work.
- Products are made according to individual customer needs and improve customer satisfaction.
- Production is easy to organize.

Disadvantages

- It is very labor intensive, so selling prices are usually higher.
- Production can take a long time and can have higher production costs (e.g., if special materials or tools are required)

Batch Production

Batch production is a method used to produce similar items in groups, stage by stage. In batch production, the product goes through each stage of the process together before moving on to the next stage. The degree to which workers are involved in this type of production depends on the type of product. It is common for machinery to be used for the actual production and for workers to participate only at the beginning and end of the process.

Examples of batch production include the following:

- bakeries
- textiles
- furniture

Example 15.4.1

American Leather, a Dallas-based furniture manufacturer, uses mass customization to produce couches and chairs to customer specifications within 30 days. The basic frames in the furniture are the same, but automated cutting machinery precuts the color and type of leather ordered by each customer. Using mass-production techniques, they are then added to each frame.

Advantages

- Because larger numbers are made, unit costs are lower.
- Batch production offers the customer some variety and choice.
- Materials can be bought in bulk, so they are cheap.
- Production is flexible because different batches are made.
- Workers specialize in one process.

Disadvantages

- Workers are often less motivated because the work becomes repetitive.
- Initial set-up costs are high.
- It is expensive to move products around the workplace.
- Storage space will be needed to store raw materials.

Mass Production

Mass production, manufacturing many identical goods at once, was a product of the Industrial Revolution. Henry Ford's Model-T automobile is a good example of early mass production. Each car turned out by Ford's factory was identical, right down to its color. If you wanted a car in any color except black, you were out of luck. Canned goods, over-the-counter drugs, and household appliances are other examples of goods that are mass-produced. The emphasis in mass production is on keeping manufacturing costs low by producing uniform products using repetitive and standardized processes. As products became more complicated to produce, mass production also became more complex. Automobile manufacturers, for example, must now incorporate more sophisticated electronics into their car designs. As a result, the number of assembly stations in most automobile manufacturing plants has increased.

Peeps

Watch the following video on the process used to manufacture the amazing candy known as Peeps. It will serve as a reference point because it features many of the process components to be discussed in this reading.



Advantages

- Labor costs are usually lower.
- Materials can be purchased in large quantities, so they are often cheaper.
- Large numbers of goods are produced.
- Unit costs are relatively low.

Disadvantages

- Machinery is very expensive to buy, so production lines are very expensive to set up.
- Workers are not very motivated because their work is very repetitive.
- Mass production is not very flexible, as a production line is difficult to adapt.
- If one part of the line breaks, the whole production process will have to stop until it is repaired, delaying the production process.
- Maintenance costs are very high.

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15.5: Production Planning

What you will learn to do: Explain the components involved in planning and scheduling the production process

Production doesn't happen by magic. Think about hosting a large party for your parents' anniversary. The first thing you have to do is find a location large enough to accommodate all the people you will be inviting. Once you have identified the location, you then must visit the site and decide how it will be laid out. Where should the tables and chairs go, where will you set up refreshments, and what about a gift table? Once you've decided on the layout, you must start making a list of the materials you'll need for the party. This includes everything from plates, cups, and napkins to hiring a DJ and a caterer. Lastly, based on the number of guests, you'll need to calculate how much of everything—food, drinks, etc.—to order.

Operations managers engage in similar planning, but they use different terminology to describe the different parts of the plan. In production planning, the components are facility location, facility layout, materials-requirement planning (MRP), and inventory control.

Learning Objectives

- Explain facility layout
- Explain just-in-time inventory control (JIT)
- Differentiate between Gantt charts, PERT, and the critical path method

Facility Location and Layout

Facility Location

Of all the pieces of the planning puzzle, facility location is the most strategic and critical. Once you build a new manufacturing facility, you have made a substantial investment of time, resources, and capital that can't be changed for a long time. Selecting the wrong location can be disastrous. Some of the key factors that influence facility location are the following:

- Proximity to customers, suppliers, and skilled labor
- Environmental regulations
- Financial incentives offered by state and local development authorities
- Quality-of-life considerations
- Potential for future expansion

The next step, after planning the production process, is deciding on plant layout—how equipment, machinery, and people will be arranged to make the production process as efficient as possible.

Facility Layout

The primary aim of facility layout is to design a workflow that maximizes worker and production efficiency. Facility layout is complex because it must take into account the available space, the work processes, the delivery of components and parts, the final product, worker safety, and operational efficiency. A poorly laid-out production facility creates inefficiencies, increases costs, and leads to employee frustration and confusion.

The four most common types of facility layout are process, product, cellular, and fixed position.

Process Layout

A **process layout** aims to improve efficiency by arranging equipment according to function. Ideally, the production line should be designed to eliminate waste in material flows, inventory handling, and management. In process layout, the workstations and machinery are not arranged according to the production sequence. Instead, each department has an assembly of similar operations or similar machinery (for example, a drill department, a paint department, etc.)

Product Layout

In a **product layout**, high-volume goods are produced efficiently by people, equipment, or departments arranged in an assembly line—a series of workstations at which already-made parts are assembled.

In the following video, Jansen, a steelmaker, describes how the company's offices were designed to maximize the productivity and creativity of its engineers:



Cellular Layout

A **cellular layout** is a lean method of producing similar products using cells, or groups of team members, workstations, or equipment, to facilitate operations by eliminating set-up and unnecessary costs between operations. Cells might be designed for a specific process, part, or a complete product. The goal of cellular manufacturing is to move as quickly as possible and make a wide variety of similar products with as little waste as possible. This type of layout is well suited for single-piece and one-touch production methods. Because of increased speed and minimal handling of materials, cells can result in great cost and time savings and reduced inventory.

Fixed Position

It is easy to move marshmallow candies around the factory while you are making them, but what about airplanes or ships? To produce large items, manufacturers use a **fixed-position layout** in which the product stays in one place and the workers (and equipment) go to the product. To see an excellent example of fixed-position layout, watch the following video that shows how Boeing builds an airplane. (Please note this video was from 2011, before the Boeing had quality control issues, killing hundreds of people.)



Materials Planning and Inventory Control

After the facility location has been selected and the best layout has been determined, the next stage in production planning is to determine our material requirements.

Material-Requirements Planning (MRP)

Material-requirements planning (MRP) is a production planning, scheduling, and inventory control system used to manage manufacturing processes. Most MRP systems are software-based, but it is also possible to do MRP by hand.

An MRP system is intended to meet the following objectives simultaneously:

- Ensure that materials are available for production and products are available for delivery to customers
- Maintain the lowest possible material and product levels in store
- Plan manufacturing activities, delivery schedules, and purchasing activities

Some manufacturing firms have moved beyond MRP systems and are now using enterprise resource planning (ERP) systems. ERP systems provide an integrated and continuously updated view of core business processes using shared databases maintained by a database management system. ERP systems track business resources—cash, raw materials, production capacity—and the status of business commitments—orders, purchase orders, and payroll. The applications that make up the system share data from and between various departments (e.g., manufacturing, purchasing, sales, accounting, etc.). ERP facilitates information flow between all business functions and manages connections to outside stakeholders.

Even with the implementation of highly integrated planning software, operations managers still must plan for and control inventory.

Just-in-Time (JIT) Manufacturing

Just-in-time (JIT) manufacturing is strategy that companies employ to increase efficiency and decrease waste by receiving goods only when they are needed in the production process, thereby reducing inventory costs. In theory, a JIT system would have parts and materials arriving on the warehouse dock at the exact moment they are needed in the production process. To make this happen, manufacturers and suppliers must work together closely to prevent just-in-time from becoming just-isn't-there. Operations managers must accurately forecast the need for materials, given that even the slightest deviation can result in a production slowdown.

Scheduling Tools



Izmailovo Hotel complex, Moscow, Russia

As you might expect, operations managers find that complex processes involve complex planning and scheduling. Consider the Izmailovo Hotel in Moscow shown in the photograph at the right. Built to house athletes during the 1980 Olympics, the complex has 7,500 guest rooms and is the largest hotel in the world. Think about cleaning all those rooms—in four thirty-story-high towers—or checking in the thousands of guests. No small operation! Although the Izmailovo doesn't produce a tangible good, it relies on many of the same operations management principles used in manufacturing to stay in business. To increase operational efficiency in complex processes such as those of running a giant hotel, operations managers use three common planning tools: Gantt charts, PERT, and the critical path method (CPM).

Gantt Charts

A Gantt chart is a timeline. Multiple projects can be added to the timeline with start and finish dates, and milestones and deadlines are also reflected. This chart is used to determine how long a project will take, the resources needed, and the order in which tasks must be completed.

Let's look at a Gantt chart for producing a birdhouse.



Suppose the following activities are required to build and package each birdhouse:

1. Determine which birdhouse the customer has ordered
2. Trace pattern onto wood
3. Cut the pieces of wood from the birdhouse pattern
4. Assemble the pieces into a birdhouse
5. Paint birdhouse
6. Attach decorations to the birdhouse
7. Prepare a shipping carton
8. Pack birdhouse into shipping carton
9. Prepare customer invoice
10. Prepare packing slip and shipping label
11. Deliver carton to shipping department

Below is the corresponding Gantt chart:

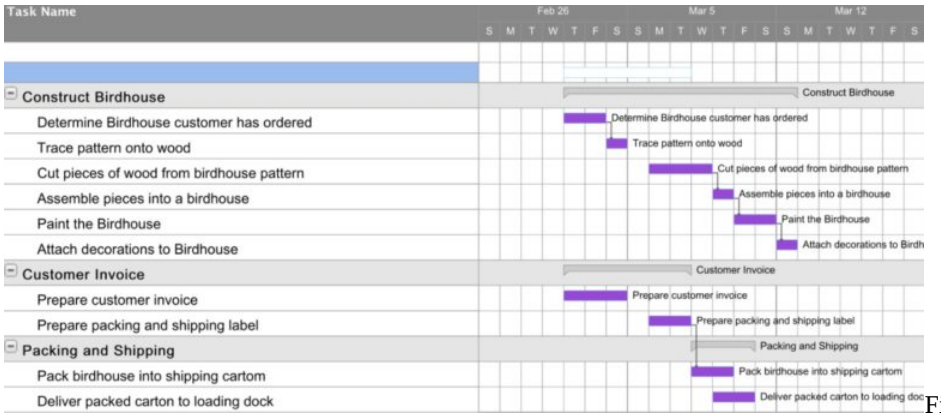


Figure 15.5.1. Gantt Chart

As you can see, the tasks on the list are displayed against time. On the left of the chart are all the tasks, and along the top is the time scale. A bar represents each work task; the position and length of the bar indicate the task start date, duration, and end date. At a glance, we can determine the following:

- What the various activities are
- When each activity begins and ends
- How long each activity lasts
- Where activities overlap with other ones, and by how much
- The start and end date of the whole project

PERT

Gantt charts are useful when the production process is simple and the activities are not interdependent. For more complex schedules, operations managers use PERT, which stands for “program evaluation and review technique.” This is a method of analyzing the tasks involved in completing a given project, especially the time needed to complete each task, and identifying the minimum time needed to complete the total project. PERT was developed primarily to simplify the planning and scheduling of large and complex projects. The key to this technique is that it organizes activities in the most efficient sequence. It can also help managers determine the critical path, discussed below.

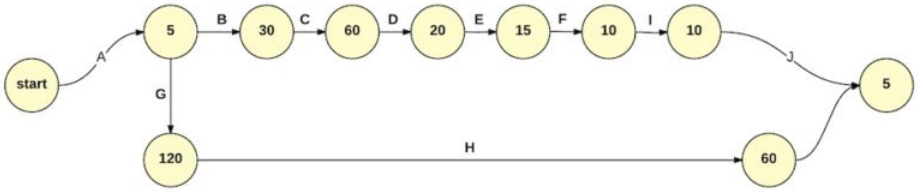
Critical Path Method (CPM)

The critical path method (CPM) is a step-by-step technique for process planning that identifies critical and noncritical tasks to prevent time-frame problems and process bottlenecks. The CPM is ideally suited to operations consisting of numerous activities that interact in a complex manner. It’s often used in conjunction with PERT.

The essential technique for using CPM is to construct a model of the project that includes the following:

1. A list of all activities needed to complete the project
2. The time that each activity will take to complete,
3. The dependencies between the activities and,
4. Logical end points such as milestones or deliverable items.

Using these values, CPM calculates the longest path of planned activities (expressed in time) to logical endpoints or to the end of the project, and the earliest and latest that each activity can start and finish without making the project longer. This process determines which activities are “critical” (i.e., on the longest path) and which can be delayed without extending the overall project duration. Take a look at Figure 2, below. What was the critical path in our construction of a birdhouse?



Index	Activity Description	Required Predecessor	Duration (minutes)
A	Determine Birdhouse	(none)	5
B	Trace Pattern	A	30
C	Cut Pieces	A, B	60
D	Assemble Pieces	A, B, C	20
E	Paint	A, B, C, D	15
F	Decorate	A, B, C, D, E	10
G	Invoice	A	120
H	Packing & Shipping Label	G	60
I	Pack Birdhouse	A, B, C, D, E, F	10
J	Carton to Loading Dock	I	5

Figure 15.5.2. Critical Path

Our critical path was the path that took the longest amount of time! This was a sequence of activities that included the customer invoice and packing and shipping label (from the start to G to H), which totaled 180 minutes. The problem is that even if we could assemble and decorate the birdhouse faster, the birdhouse would just wait for the paperwork to be completed. In other words, we can gain efficiency only by improving our performance in one or more activities along the critical path.

Did You Know...?

PERT was developed by the U.S. Navy. The Navy's Special Projects Office devised this statistical technique for measuring and forecasting progress while designing the Polaris-Submarine weapon system and the Fleet Ballistic Missile capability.

CPM was first used for major skyscraper development in 1966 to construct the former World Trade Center Twin Towers in New York City (Kwezner, 2003).

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15.6: New Technologies

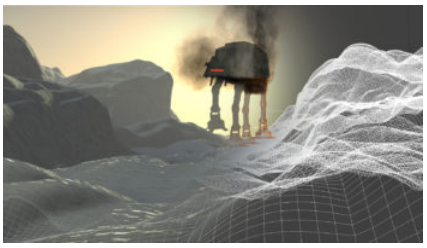
What you'll learn to do: identify existing and emerging technologies that are changing the way goods are produced and delivered

Technology has revolutionized the way products are manufactured and delivered. In this section, you'll get a glimpse of some of the latest technological innovations and how they're changing business operations.

Learning Objectives

- Describe CAM
- Describe flexible manufacturing

New Technologies



With certain manufacturing processes—especially ones demanding high precision and mass production—it can be difficult or too costly to find the skilled labor needed to perform the tasks. This pressure has increased reliance on computers and highly specialized software systems. Some of these new, sophisticated technologies are described below.

Computer-Aided Design

Computer-aided design (CAD) is the use of computer systems (or workstations) to aid in creating, modifying, analyzing, or optimizing a design. CAD software is used to increase the designer's productivity, improve the design quality, improve communications through documentation, and create a database for manufacturing. CAD is an important industrial art extensively used in many applications, including automotive, shipbuilding, and aerospace industries, industrial and architectural design, prosthetics, and many more. CAD is also widely used to produce computer animation for special effects in movies, advertising, and technical manuals. The ubiquity and power of computers today mean that even perfume bottles and shampoo dispensers are designed using techniques unheard of by the engineers of the last century.

Computer-Aided Manufacturing

Computer-aided manufacturing (CAM) is the use of software to control machine tools in the manufacturing of workpieces. Its primary purpose is to speed the production process and produce components and tooling with more precise dimensions and material consistency. In some cases, this enables production using only the required amount of raw materials—thus minimizing waste and reducing energy consumption.

In the following video, a CNC carving machine uses a computer program (CAD/CAM) to create an amazing woodcarving:



Computer-Integrated Manufacturing

Computer-integrated manufacturing (CIM) is a manufacturing approach that uses computers to control the entire production process. This integration allows individual processes to exchange information with one another and initiate actions. Although CIM can be faster and less error prone than conventional manufacturing, the main advantage is the ability to create automated manufacturing processes.

Watch this short video of a factory in which CIM is used in the factory production line to build the Kia Sportage:



Flexible Manufacturing Systems

A **flexible manufacturing system (FMS)** offers flexibility in how the production system reacts to planned or unplanned changes. This flexibility is typically built into one of the following:

- **Machine flexibility:** the system can be changed to produce new product types or alter the order of operations executed on a part.

- **Routing flexibility:** the system has multiple machines that can perform the same operation on a part, or the system can absorb large-scale changes in volume, capacity, or capability.

An FMS has immense advantages over traditional production lines in which machines are set up to produce only one type of good. When the firm needs to switch a production line to manufacture a new product, substantial time and money are often spent modifying the equipment. An FMS makes it possible to change equipment set-ups merely by reprogramming computer-controlled machines. Such flexibility is particularly valuable to companies that produce customized products.

3D Printing

3D printing (or additive manufacturing, AM) is any of various processes used to make a three-dimensional object. In 3D printing, additive processes are used, in which successive layers of material are laid down under computer control. These objects can be of almost any shape or geometry and are produced from a 3D model or other electronic data source. A 3D printer is a type of industrial robot. Several different 3D printing processes have been invented since the late 1970s. The printers were originally large, expensive, and highly limited in what they could produce; today, they are much cheaper and more versatile.

The following short videos show 3D printing in action:





The main differences between 3D printing processes are in the way layers get deposited to create parts and in the materials used to produce those layers. Some methods melt or soften material to produce the layers, whereas others cure liquid materials using sophisticated technologies. The primary considerations in choosing a 3D printer are speed, cost of the machine, cost of the printed prototype, cost and choice of materials, and color capabilities.

Regardless of the technology used in the production process, consumers benefit greatly from these advances. Mass customization of everything from Yankee candles to T-shirts to beverage Koozies is possible because of these exciting advances in computer technology.

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15.7: Supply Chain Management Logistics

What you'll learn to do: explain the importance of supply chain management and logistics

In this section you'll learn about the role of supply chain management and logistics in the production of goods and services.

Learning Objectives

- Differentiate between supply chain management and logistics
- Differentiate between inbound and outbound logistics

Supply Chain Management and Logistics

The following video provides an overview of the importance of supply chain management and logistics.



Supply Chain Management

As you saw in the video, **supply chain management** is the process of managing the movement of raw materials and parts from the beginning of production through delivery to the consumer. In many organizations, operational supply chain decisions are made hundreds of times daily, affecting how products are developed, manufactured, moved, and sold. The complexity of the supply chain varies with the size of the business and the intricacy and quantity of items manufactured, but most supply chains have elements in common, such as the following:

- **Customers:** Customers start the chain of events when they decide to purchase a product offered for sale by a company. If the product has to be manufactured, the sales order will include a requirement that needs to be fulfilled by the production facility.
- **Planning:** The planning department will create a production plan to produce the products to fulfill the customer's orders. To manufacture the products, the company will then have to purchase the raw materials needed.
- **Purchasing**: The purchasing department receives a list of raw materials and services required by the production department to complete the customers' orders.
- **Inventory:** The raw materials are received from the suppliers, checked for quality and accuracy, and moved into the warehouse.
- **Production:** Based on a production plan, the raw materials are moved to the production area. These raw materials are used to manufacture the finished products ordered by the customer and then sent to the warehouse where they await shipping.
- **Transportation:** When the finished product arrives in the warehouse, the shipping department determines the most efficient method to ship the products so they are delivered on or before the date specified by the customer.

Take a look at the following video about BYU ice-cream production. Can you identify each of the above elements in BYU's supply chain?



Logistics

When used in a business sense, logistics is the management of the flow of things between the point of origin and the point of consumption to meet requirements of customers or corporations. The resources managed in logistics can include physical items such as food, materials, animals, equipment, and liquids, as well as abstract items such as time and information. The logistics of physical items usually involves the integration of information flow, material handling, production, packaging, inventory, transportation, and warehousing.



There is often confusion over the difference between logistics and supply chains. It is now generally accepted that logistics refers to activities within one company/organization related to the distribution of a product, whereas supply chain also encompasses manufacturing and procurement and therefore has a much broader focus, as it involves multiple enterprises, including suppliers, manufacturers, and retailers, working together to meet a customer's need for a product or service.

One way to look at business logistics is "having the right item in the right quantity at the right time at the right place for the right price in the right condition to the right customer." An operations manager who focuses on logistics will be concerned with issues such as inventory management, purchasing, transportation, warehousing, and the planning and organization of these activities. Logistics may have either an internal focus (inbound logistics) or an external focus (outbound logistics).

Inbound Logistics

A manager in charge of inbound logistics manages everything related to the incoming flow of resources that the company needs to produce its goods or services. These activities will include managing supplier relationships, accessing raw materials, negotiating materials pricing, and arranging quicker delivery.

Outbound Logistics

A manager working in outbound logistics will focus on two issues: storage and transportation. They will use warehousing techniques to keep the finished goods safe and accessible. Because the products may need to be moved out to a customer at any moment, proper organization is crucial. Having as little product stored as possible can be advantageous since stored products are not making money, so the outbound logistics manager often has to balance company cost savings with consumer demand. The transportation function is by far the most complex part of outbound logistics. Without transport, there simply is no logistics. For that reason, it's critical to be able to move the product from one location to another in the fastest, most cost-effective, and efficient way possible. Since transportation involves fluctuations, factors such as delays and changes in fuel costs need to be taken into account to cover all possible scenarios that might jeopardize the efficient movement of goods.

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15.8: Quality Assurance

What you'll learn to do: summarize common management techniques used to ensure high-quality goods and services

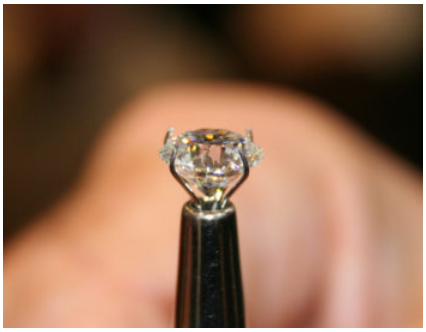
In this section, you'll learn about common quality-management techniques used in the production of goods and services. We'll also discuss the role of national and international quality standards in industry.

Learning Objectives

- Explain the benefits of national and international quality standards in the production of goods and services.

Quality Assurance

What is *quality*? According to the American Society for Quality, quality refers to "the characteristics of a product or service that bear on its ability to satisfy stated or implied needs" (American Society of Quality, 2024).



As a customer, you're constantly assured that when products and services make it to market, they're of the highest quality. If they aren't—if they fail to meet your expectations or to live up to claims—you may decide to avoid certain brands or give up on those products/services altogether. When companies can't deliver quality goods or services, they risk losing trust, loyalty, and business.

Nowhere are the high stakes of quality more evident than in the case of a product recall—when a company requests the return of a product after the discovery of safety issues or product defects that might endanger the consumer.

Consider Samsung's recent recall of its popular tablet computer, the Galaxy Note 7, in October 2016:

> *"Samsung has announced an expanded voluntary recall on all original and replacement Galaxy Note 7 devices sold or exchanged in the United States in cooperation with the U.S. Consumer Product Safety Commission and in partnership with carriers and retailers. Since the affected devices can overheat and pose a safety risk, we are asking consumers with a Galaxy Note 7 to power it down and contact the carrier or retail outlet where they purchased their device." (Samsung, 2016).*

If you bought a Galaxy Note 7, you probably weren't expecting that it might catch fire during regular use! If you held shares of Samsung in your stock portfolio, you probably weren't expecting the company's stock price to plummet practically overnight, either. After all, Samsung was the world's number-one manufacturer of smartphones, and as of September 30, 2016, it had sold 2.5 million Galaxy Note 7 devices worldwide. Yet this is exactly what happened. Besides affecting millions of customers and taking a toll on shareholders, the recall meant lost income for retailers, who had to pull the device from their shelves, and for many of Samsung's suppliers. This quality debacle impacted the entire supply chain.

Given the devastating financial and, in some cases, legal consequences of selling inferior goods or services, how do companies actually ensure that they're producing products and offering services that meet customer expectations for quality? We will examine just a few of the ways companies manage the production of quality goods and services.

Statistical Process Control

Statistical process control (SPC) is a quality control method that uses statistical or mathematical methods to monitor and control a process. SPC aims to ensure that production operates at its full potential. "Full potential" indicates the point where the process produces as much conforming product as possible with a minimum (if not the total elimination) of defective parts, rework, or scrap. SPC can be applied to any process in which the product can be measured. Key tools used in SPC include control charts focusing on continuous improvement.

Example 15.8.1

Margie is the production manager at Wanda's Widgets. The company uses SPC as its approach to quality assurance. Several times per day, the quality assurance team comes to the production floor and takes a sample of widgets from the production line. These widgets are closely inspected to ensure that they meet company standards. Everything from their weight to the uniformity of the paint is closely inspected and entered into the SPC software program. When the data are analyzed, if the output from the SPC software indicates that the widgets do not meet the standard, Margie is alerted that there is an issue, and production may be stopped until the process produces as many perfect widgets as possible.

Benchmarking

Benchmarking involves comparing one's business processes and performance metrics to industry bests and best practices from other companies. Dimensions typically measured are quality, time, and cost. In the process of best-practice benchmarking, management identifies the best firms in their industry—or in another industry where similar processes exist—and compares the results and processes of those studied (the "targets") to one's own results and processes. In this way, management learns how well the targets perform and, more importantly, the business processes that explain why those firms are successful.

Benchmarking is used to measure performance using a specific indicator (cost per unit of measure, productivity per unit of measure, cycle time of x per unit of measure or defects per unit of measure), resulting in a performance metric compared with others. Benchmarking may be a one-time event but is often treated as a continuous process in which organizations continually seek to improve their practices.

Lean Manufacturing

The central idea of **lean manufacturing** is actually quite simple: Work relentlessly to eliminate waste from the manufacturing process. In this context, "waste" is defined as any activity that doesn't add value from the customer's perspective. Almost every company has a tremendous opportunity to improve using lean manufacturing techniques. Lean principles were developed by the Japanese manufacturing industry—by Toyota and the Toyota Production System (TPS) specifically. Lean manufacturing is based on the following goals and assumptions:

- Continuous improvement
- Respect for people
- A long-term approach to process improvement
- The right process will produce the right results
- Add value to the organization by developing your people and partners
- Continuously solving root problems

Did You Know...?

Toyota originally began sharing the TPS with its parts suppliers in the 1990s. Because of interest in the program from other organizations, Toyota began offering instruction in the methodology to others. Toyota has even "donated" its system to charities, providing its engineering staff and techniques to nonprofits in an effort to increase their efficiency and

> thus ability to serve people. For example, Toyota assisted the Food Bank For New York City to significantly decrease waiting times at soup kitchens, packing times at a food distribution center, and waiting times in a food pantry (El-Naggar, 2013).

Six Sigma

In the United States, another approach to quality management was formulated at Motorola in 1986 and was named **Six Sigma (6σ)**. Whereas lean management is focused on eliminating waste and ensuring efficiency, Six Sigma focuses on eliminating defects and reducing variability. The following features also set Six Sigma apart from other quality-improvement initiatives:

- A clear focus on achieving measurable and quantifiable financial returns from any Six Sigma project. To determine the financial return on a quality initiative, the cost of quality (COQ) must be calculated. The cost of quality has two parts, added together: the cost of prevention and the cost of failure (or nonconformance). If spending more on prevention reduces the cost of failure by an even greater amount, the total cost of quality is reduced, and such a project would make good business sense.
- An increased emphasis on strong and passionate management leadership and support.
- A clear commitment to making decisions based on verifiable data and statistical methods rather than on assumptions and guesswork.

Six Sigma identifies individuals considered “experts in quality” and awards titles like Champion and Master Black Belt. By the late 1990s, about two-thirds of the top five hundred companies in the United States had begun Six Sigma projects, including Ford, which had allowed its quality programs to slip.

International Quality Standards

As a consumer, wouldn’t you like to know which companies ensure their products meet quality specifications? Or, might you want to know which companies take steps to protect the environment? Some consumers want to know which companies continuously improve their performance in both areas—that is, practice both quality management and environmental management. By the same token, if you were a company doing a good job in these areas, wouldn’t you want potential customers to be aware of your achievements? It might also be worthwhile to find out whether your suppliers were conscientious in these areas—and even your suppliers’ suppliers.

ISO 9000 and ISO 14000

Through the International Organization for Standardization (ISO), a nongovernmental agency based in Switzerland, it’s possible to find out the kind of information just mentioned. The resources of this organization will enable you to identify organizations with people and processes in place for delivering products that satisfy customers’ quality requirements. You can also find out which organizations work to reduce the negative impact of their activities on the environment. Working with representatives from various countries, the organization has established the ISO 9000 family of international standards for quality management and the ISO 14000 family of international standards for environmental management.

ISO standards focus on how a company does its work, not on its output (though there’s certainly a strong correlation between how a business functions and the quality of its products). Compliance with ISO standards is voluntary, and the certification process is time-consuming and complex. Even so, hundreds of thousands of organizations around the world are ISO 9000 and ISO 14000 certified (International Organization for Standardization, 2022). ISO certification has become an internationally recognized symbol of quality management and is increasingly essential to being competitive in the global marketplace.

Malcolm Baldrige National Quality Award

To provide encouragement and a consistent standard, the U.S. government created the Malcolm Baldrige National Quality Award in 1987 to encourage companies to improve quality; the award was named for Malcolm Baldrige, who was the U.S. secretary of commerce from 1981 to 1987 (National Institute of Standards and Technology, 2023). The Commerce Department’s National Institute of Standards and Technology (NIST) manages the Baldrige Award in cooperation with the private sector. An organization may compete for the award in one of six categories: manufacturing, service, small business, health care, education, and nonprofit (including government agencies). An independent board of examiners recommends the Baldrige Award recipients after evaluating them in the following seven areas defined by the Baldrige Excellence Framework:

- leadership
- strategy
- customers
- measurement
- analysis and knowledge management
- workforce
- operations
- results

Past recipients of the Baldridge Award include the following:

- Price-Waterhouse-Coopers Public Sector Practice, McLean, VA
- Pewaukee School District, Pewaukee, WI
- Concordia Publishing House, St. Louis, MO
- City of Irving, Irving, TX
- Lockheed Martin Missiles and Fire Control, Grand Prairie, TX
- Nestlé Purina PetCare Co., St. Louis, MO

> *"No one knows the cost of a defective product—don't tell me you do. You know the cost of replacing it, but not the cost of a dissatisfied customer."*
>
> *—W. Edwards Deming*

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15.9: Putting It Together- Managing Processes

Synthesis

In this module you were given an overview of and insight into the world of operations management and the key role it plays in delivering high-quality goods and services to customers. We can sum up operations management by saying that it's the functional area within organizations that makes sure that the right customer gets the right product at the right time for the right price in a form that meets the customer's quality expectations. It's a pretty tall order, and it requires operations managers to be involved in every facet of the business process.

Regardless of how much market demand there is for a given product, good, or service, if the organization cannot consistently deliver it, then consumers will either find a substitute or simply do without. Consider the following examples, and you'll begin to register the impact of poor operations management:

Have you ever . . .

- Left a restaurant because the wait was too long or the service too slow?
- Returned an item to the store because it was defective or broke shortly after you bought it?
- Stayed in a hotel and vowed never to go there again because the hot water didn't work or the room wasn't clean?
- Attended a Thanksgiving dinner where the turkey was bone dry and the sweet potato pie was crunchy?

Doing something a little inefficiently one time is no big deal, but when you do something inefficiently over and over, hundreds or even millions of times per year, even little mistakes can add up to incredible waste. Mistakes in an operation that result in defective products, even if they represent only **1 percent** of total output, can alienate millions of customers. Similarly, if poorly designed operations result in habitually serving customers late, a company will eventually lose customers to better-functioning competitors.

As you can see, breakdowns in operations management can be very disappointing to the consumer and costly to the organization!

Summary

In this module you learned about how operations management contributes to organizational success in business. Below is a summary of the key points covered.

Operations Management

Operations management is responsible for all the activities involved in transforming a concept into a finished product or service. Included in these activities are planning and controlling the systems that produce these goods and services.

Production Processes

Operations management includes decisions about the way in which production will proceed. Common production processes include project-based, batch, mass, and continuous production.

The layout of a facility is most often determined by the product being manufactured. The four types of facility layouts are process, product, cellular, and fixed position.

Mining, Warehousing, and Sharing Data

Many aspects of business operations rely on data and information to inform their decisions. Today's companies have sophisticated tools for mining, warehousing, and sharing data on everything from customers to inventory and sales.

Production Planning

Depending on the product being manufactured, operations planning needs to decide where the facility will be located, how the facility will be organized, and the materials needed for production. Another major part of operations planning is scheduling the various activities that go into the production process. Three tools that are used by operations managers to ensure that projects and tasks are completed on time are the Gantt, PERT, and the critical path method.

New Technologies

Just as technology has revolutionized the average home, it has also transformed the way products are manufactured. Using technologies such as CAD (computer-aided design), CAM (computer-aided manufacturing), CIM (computer-integrated manufacturing), flexible manufacturing, and 3D printing, companies are able to manufacture products faster and more efficiently.

Supply Chain Management and Logistics

Supply chain management refers to the management activities that maximize customer value and allow the company to gain a competitive advantage. It represents a conscious effort among firms to work in the most efficient ways possible. Supply chain activities cover everything from product development, sourcing of materials, actual production, and transportation logistics.

Quality Assurance

The cost of poor quality can range from a small refund to a single, dissatisfied customer to global product recalls. In order to ensure that their products, goods, and services meet consumer quality standards, companies can employ quality-control techniques such as SPC, benchmarking, lean manufacturing, and Six Sigma. They can also seek certification through national and international quality-assurance organizations.

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