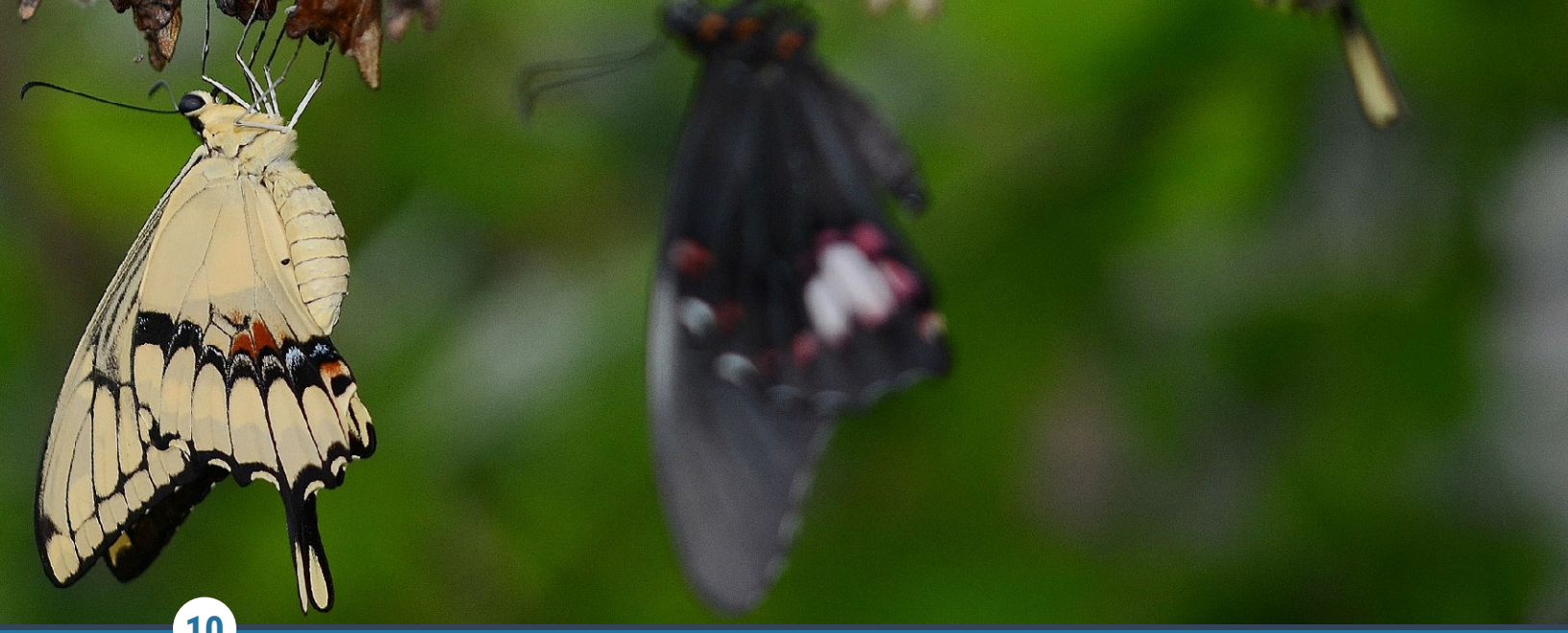


10

Organizational Structure and Change

Exhibit 10.1 (Credit: GLady/ Pixabay/ (CC BY 0))

Introduction

Learning Outcomes

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

1. What are mechanistic versus organic organizational structures?
2. What are the fundamental dimensions of change?
3. How do managers deal with change?

EXPLORING MANAGERIAL CAREERS

Jackie Smith, CareSource University

Jackie Smith is a human resources, training and organizational development professional with more than 20 years of experience. She has worked in a variety of organizations and industries in both the for-profit and not-for-profit sectors.

Jackie is vice president of CareSource University at CareSource, a Medicaid managed care organization. She oversees CareSource University as well as the company's performance management, succession, and goal-setting processes. In 2017 CSU delivered more than 240,000 learning hours, coached 300 leaders, and onboarded 1,100 new hires. CareSource University has been nationally recognized for seven years as one of *Training* magazine's Top 125 training organizations, ranking in the top 19 for six years. In 2017, CSU was named to the global Learning Elite, ranking 18th among worldwide organizations. Prior to CareSource, Jackie was president of Reflections on Learning, a performance-consulting firm, and worked as a senior organizational development consultant, regional human resources manager, training specialist, and manager in the financial services, retail, and transportation industries.

Jackie's instructional focus has been in the area of leadership development, designing programs including:

- Developing Your Leadership Vision

- Leading through Extraordinary Change
- Transforming Team Performance through Dialogue
- Building Sustainable Strategy with Appreciative Inquiry

Her educational background includes a BS in education from Miami University, Ohio and Luxembourg and an MS in organizational development and leadership from St. Joseph's University in Philadelphia. In addition, she has served as an adjunct faculty member at Antioch McGregor University and is a certified facilitator in a variety of training and development programs, organizational assessments, and Myers-Briggs profiling. She also serves as a team leader facilitating business strategy sessions in countries around the world including Ecuador, Jordan, Guinea, and Senegal.

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.

10.1 Organizational Structures and Design

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.[1]

To understand the role of organizational structure, consider the experience of Justin, a young manager who worked for a logistics and transportation company. Their success at leading change in the United States gave their leaders the confidence that Justin 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 they will organize the system. “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 10.2**, is perhaps the most common way of depicting the formal organization. The typical organization has a hierarchical form with clearly defined roles and responsibilities.

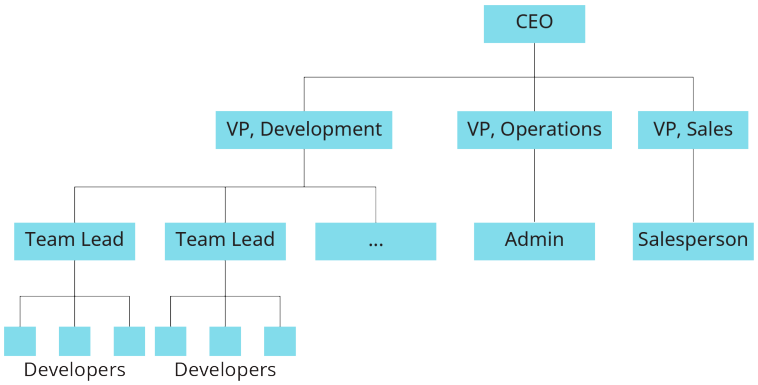


Exhibit 10.2 Formal Organizational Chart (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

When Justin sets up the formal organization, they 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, they will identify the essential functions that need to be part of the system, and they will hire people to fill these functions. They 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 actually connect with one another to carry out their 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 10.3**, 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.[2]

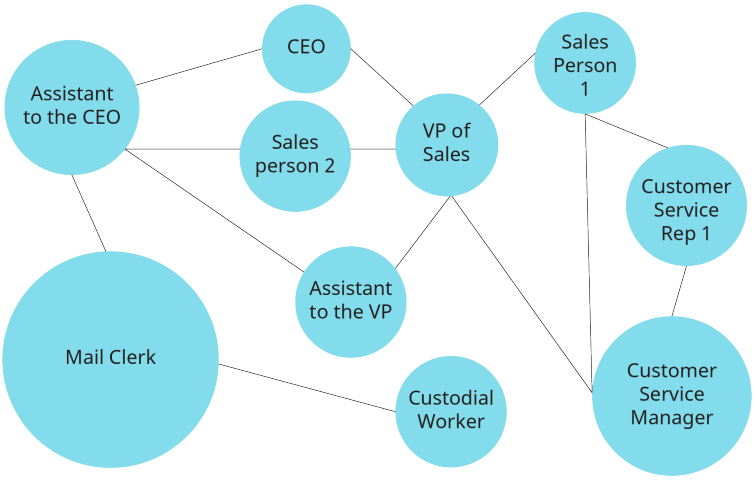


Exhibit 10.3 Informal Organizational Chart (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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 organizational *actually* functions. Formal organization will come as Justin hires and assigns people to different roles. They 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. They 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 10.4 Smoke coming out of chapel chimney Almost all organizations have established organizational hierarchies and customs. As an older, large 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.[3]

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 of the 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 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 10.1).

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 10.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

On 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 decision. 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 they can provide more oversight. Thus, increasing span of control for a manager tends to flatten the hierarchy while narrowing 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 of these 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.

Business 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 business 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 of 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 the 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?

10.2 Organizational Change

2. 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 advantages and disadvantages of each 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.[4]

Types of Change

There are many different types of changes in organizations. The first, consistent with what we 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 to centralize or decentralize operations, empower employees, or find 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 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. Culture change is among the most difficult kinds of changes to create within an organizational system. It often involves reshaping and reimagining the core identity of the organization. A typical culture change process, if it is successful, requires many years to achieve.[5]

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 10.5**). 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.

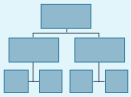
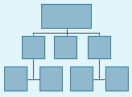
	Entrepreneurship	Survival and Early Success	Sustained Success	Renewal (or Decline)
Organization				
Extent of formal systems	Minimal to nonexistent	Minimal	Basic/Developing/ Maturing	Extensive
Key Ideas	• Marshalling of resources • Lots of ideas • Entrepreneurial activities • Little planning and coordination • Formation 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 10.5 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 a 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, then fixing them in a systematic way. Incremental change does not typically challenge people to be at the edge of their comfort zone.[6]

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 also 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.[7]

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 work to stay competitive in the current or larger organization, larger market environment, or societal environment.



Exhibit 10.6 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 to 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 teambuilding, 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?

10.3 Managing Change

3. 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.[8]

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 its strengths and its 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 encourage 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 need to 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 need to 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.[9]

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 10.7 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 on 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 over-100-year history. 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 to 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 like 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 tapdancing." 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 fresh water 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 like 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. Since 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."

Sources: Matt Larkin, "Kim Davis is the kind of Leader the NHL Needs in 2018: A Hockey Outsider," *The Hockey News*, April 6, 2018, http://www.thehockeynews.com/news/article/kim-davis-is-the-kind-of-leader-the-nhl-needs-in-2018-a-hockey-outsider; Kevin Blackistone, "Why the NHL is getting involved in climate-change efforts, *'The Chicago Tribune*, January 3, 2016, http://www.chicagotribune.com/sports/hockey/ct-nhl-climate-change-epa-20160103-story.html; Miranda Green, "NHL Report Finds that Climate Change Hurts the Sport," *The Hill*, March 28, 2018, http://thehill.com/policy/energy-environment/380648-national-hockey-league-report-finds-climate-change-hurts-the-sport; "Andrew Ference; Student Spotlight," *Harvard University Extension- Inside Insight*, Accessed March 15, 2018, https://www.extension.harvard.edu/inside-extension/andrew-ference; Amalie Benjamin, "Andrew Ference Excited About New Sustainability Role," *NHL.com*, March 13, 2017, https://www.nhl.com/news/andrew-ference-flourishing-in-role-with-nhl-green/c-287680614.

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?

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.[10] The other two models, Cooperrider's Appreciative Inquiry model[11] and the Olson and Eoyang Complex Adaptive Systems model,[12] are designed to promote informal organizing and emergent change.

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 10.8**).

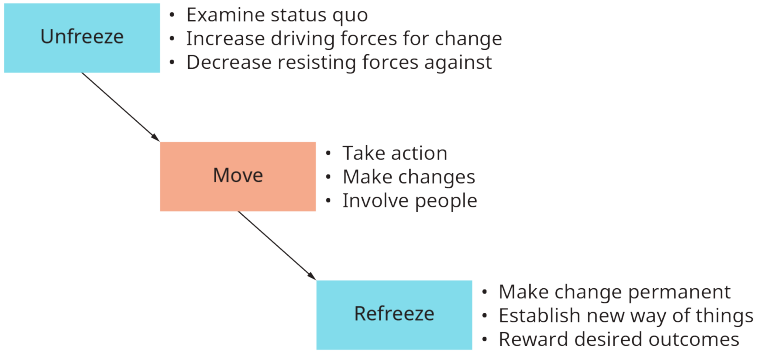


Exhibit 10.8 Summary of Kurt Lewin's Change Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

First, an organization must be "unfrozen" in that existing norms, routines, and practices need to 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 to 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 need to 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, then 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.

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 it may be especially useful in organizations where there is a strong, hierarchical structure. This is an eight-step model, shown in **Exhibit 10.9**, that relies on a centralized, top-down process for creating planned change.



Exhibit 10.9 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 change is to help them see the path to success. Small 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 need to 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 10.10**.

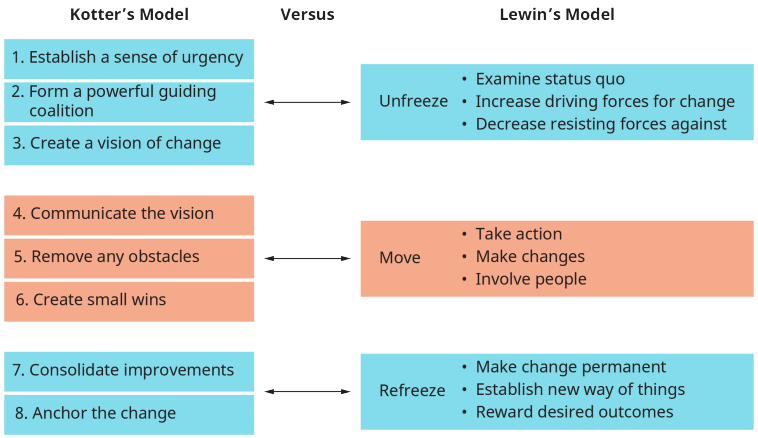


Exhibit 10.10 Kotter's Model versus Lewin's Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Appreciative Inquiry

The **Appreciative Inquiry (AI) model** 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 effective on people and organizations.[13] 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 in 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 to create new narratives.[14] Specifically, **appreciative conversations** are intense, positively framed discussions that help people to 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, 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 is *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 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 to accomplish the objective. Then they use a collective process to identify the ideas that have the most promise. Usually senior leaders will add their voice 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 celebrative 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)**.[15] 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.[16] 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 about how self-organizing occurs among employees.[17] 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 initiative, engaging in nondirected 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 need to 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.

There are three ways in which self-organizing structures can be altered.[18] 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 are able to 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 as 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 to 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?

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 to develop common ground as they work together to cocreate 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 that states 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 who have 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 reimagining 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.
organization 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 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) Specialized field that focuses on how to design and manage change.
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

10.1 Organizational Structures and 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 structures to accomplish their work, and they need an ability to change in order to sustain and renew themselves over time

10.2 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 culture 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.

10.3 Managing Change

3. How do managers deal with change?

As an organization grows and matures, change becomes necessary to 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. What are 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 10.2, Exhibit 10.3, and Exhibit 10.5 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: 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 employee 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 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 salesforce 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?

Sources: Mark Matousek, Danny Meyer Banned Tipping at his Restaurants- But Employees Say it has Led to Lower Pay and High Turnover," *Business Insider*, October 20, 2017, http://www.businessinsider.com/danny-meyers-no-tip-policy-struggles-2017-10; Loren Feldman, "Danny Meyer On Eliminating Tipping: "It Takes a Year to Get The Math Right," *Forbes*, January 14, 2018, https://www.forbes.com/sites/lorenfeldman/2018/01/14/danny-meyer-on-eliminating-tipping-it-takes-a-year-to-get-the-math-right/#189bd5c8431f; Elizabeth Dunn, "The Limitations of American Restaurants' No-Tipping Experience," *The New Yorker*, February 24, 2018, https://www.newyorker.com/culture/annals-of-gastronomy/the-limitations-of-american-restaurants-no-tipping-experiment.



11

Human Resource Management

Exhibit 11.1 (Credit: Ludovic Bertron /flickr / Attribution 2.0 Generic (CC BY 2.0))

Introduction

Learning Outcomes

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 rewards 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.

11.1 An Introduction to Human Resource Management

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".[1] 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.

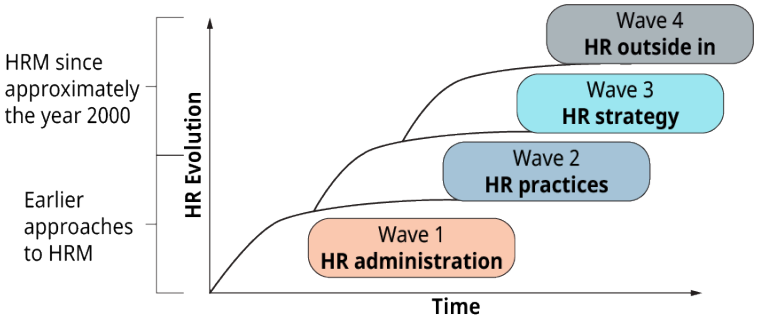


Exhibit 11.2 Evolution of HR Work in Waves (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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 development of employees, the HR resource can drive the talent management processes—such as performance management, succession planning, training, and development—for companies who 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

Human resources 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?

11.2 Human Resource Management and Compliance

2. 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 1935, which was later amended in 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 employer 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 is 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 11.1** for a partial list of federal labor laws by number of employees, as displayed on the Society for Human Resource Management website.

Refer to **Table 11.1**: 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 website, https://www.shrm.org/, accessed October 20, 2018.

Table 11.1 (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 human resources 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?

11.3 Performance Management

3. 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 ("The Performance Management Revolution," Harvard Business Review, October 2016).[2] After World War II, about 60% of all U.S. companies were using a performance appraisal process. (By the 1960s nearly 90% of all U.S. companies were using them.) 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 or so, 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 deal with the long-standing concern that supervisors failed to label real differences in performance (HBR, The Performance Management Revolution). 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 on 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." (Performance Management Revolution, HBR). 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.[3] ("*Reinventing Performance Management*," Harvard Business Review, Buckingham and 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 ("Reinventing Performance Management," HBR). 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.[4] ("Let's Not Kill Performance Evaluations Yet," HBR, Nov 2016, Goler, Gale, Grant). 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* article "Six Principles of Effective Global Talent Management" (Winter 2012), 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.[5] ("*The Performance Management Revolution*," Capelli and Tavis, HBR, pp. 9-11).

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, Timebound) 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 the 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 firehose" 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?

11.4 Influencing Employee Performance and Motivation

4. 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.

In the 2011 SHRM article by Stephen Miller, entitled "Study: Pay for Performance Pays Off," Miller says that companies' top four drivers for moving to a pay-for-performance strategy are to:

- 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.[6] 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 2015 World at Work "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.[7]

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. World at Work defines *total rewards* as a "dynamic relationship between employers and employees." World at Work 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.

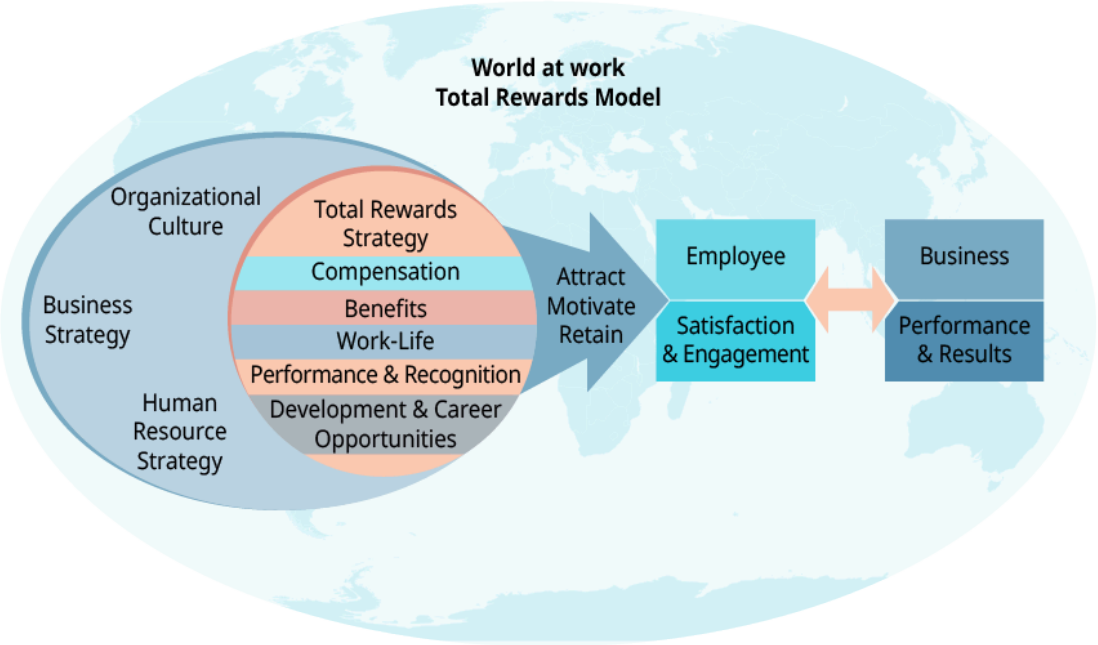


Exhibit 11.3 Total Rewards Model, World at Work (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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. In the HBR article "Employee Motivation: A Powerful New Model" (Nohria, Groysberg,

Lee), August 2008, the authors 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 11.2 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.[8]

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 our 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?

11.5 Building an Organization for the Future

5. 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. In the article "The Definitive Guide to Recruiting in Good Times and Bad" (Fernandez-Araoz, Groysberg, Nohria, HBR, 2009), the authors advocate for a rigorous and strategic recruiting process that includes the following critical actions:

- Anticipate your 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, as opposed to being managed internally by human resources employees.[9] 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.[10]

Recruiting and hiring of high-level leadership candidates has special risks and rewards associated with it. 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 being available and the selection of the right talent being so critical to the organization's future. 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 (Definitive Guide to Recruiting, HBR, 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 provides, 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 11.4 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 résumés, 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 you have chosen the final candidate, you can increase the chance that the job offer will be accepted by:

- 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.

Hiring Top-Level Executives			
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 techniques
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

Adapted from "The Definitive Guide to Recruiting in Good Times and Bad," from article "Hiring Top Executives: A Comprehensive End-to-End Process," Harvard Business Review, May 2009.

Table 11.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Hiring Top-Level Executives			
Steps in the Process	**Poor Practices**	**Best Practices**	**Challenges**
Integrate the new hire.	Don't assume that the hew 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 article "Hiring Top Executives: A Comprehensive End-to-End Process," Harvard Business Review, May 2009.

Table 11.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Refer to **Table 11.2**: Hiring Top-Level Executives, adapted from "The Definitive Guide to Recruiting in Good Times and Bad," from the article "Hiring Top Executives: A Comprehensive End-to-End Process," *Harvard Business Review*, May 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?

11.6 Talent Development and Succession Planning

6. What are the benefits of talent development and succession planning?

Talent development and **succession planning** are, in my opinion, 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 process and programs that an organization utilizes to assess and develop talent. Succession planning is the process for 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 require 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 11.3**: Performance and Potential Grid.

Performance and Potential Grid				
	Potential			
Performance over time		**Lowest potential rating**	**Middle potential rating**	**Highest potential rating**
	Highest	John Smith Melanie Roper Keegan Flanagan	Chieh Zhang Edgar Orrelana	Rory Collins Aimee Terranova
	Medium	Joseph Campbell Alina Dramon Alex Joiner Lauren Gress	Christina Martin Thomas Weimeister	Richard Collins
	Lowest	Marty Hilton		

Table 11.3

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, wrote about some of these HR technology innovations in his SHRM.org article "9 HR Tech Trends for 2017" (Jan. 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, and high = ready to advance. Potential does *not* equate to the value of an individual within the organization, nor does it state the quality of 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 of 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 into what a team member could be capable of based on limited information that is available now.

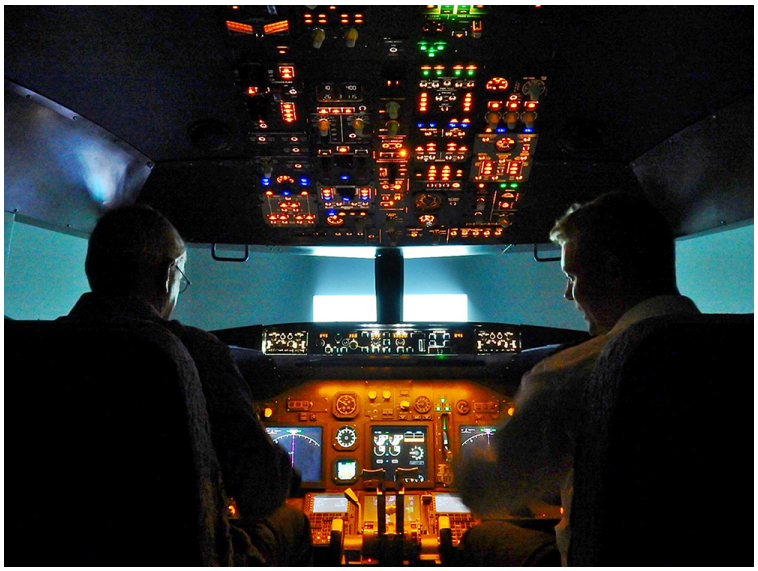


Exhibit 11.5 This is a flight simulator for a Boeing 737 aircraft. There is a drastic shortage of aircraft pilots, and training future pilots is a critical function with the challenge of limited actual flight training time. Consider how technology helps companies develop skilled workers both on and off 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 in order maintain the integrity and confidentiality of this important talent process. The book *One Page Talent Management* (Effron and Ort, HBS Press, 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."[11]

After everyone being discussed has been placed in one of the boxes on the 9-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 possesses 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 manager, 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?

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, 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

11.1 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.

11.2 Human Resource Management and Compliance

2. How does the human resources compliance role of HR provide value to a company?

Human resources helps 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.

11.3 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.

11.4 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 help employees understand the context and philosophy, as well as the specific methodology.

11.5 Building an 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 need and specifics of the job, develop a pool of candidates, and then assess candidates for the right person to bring into the organization.

11.6 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 on 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 their 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 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," which is 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 they are 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 to a consulting company? How are they similar,s and how are they different? Can you think of work areas or industries in which Holacracy would be very difficult to implement?

Sources: Askin and Petriglieri, *"Tony Hsieh at Zappos: Structure, Culture, and Change*", INSEAD Business School Press, 2016.



12

Diversity in Organizations

Exhibit 12.1 (Credit: rawpixel/ Pixabay/ (CC BY 0))

Introduction

Learning Outcomes

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

1. What is diversity?
2. How diverse is the workforce?
3. How does diversity impact companies and the workforce?
4. What is workplace discrimination, and how does it affect different social identity groups?
5. What key theories help managers understand the benefits and challenges of managing the diverse workforce?
6. How can managers reap benefits from diversity and mitigate its challenges?
7. What can organizations do to ensure applicants, employees, and customers from all backgrounds are valued?

EXPLORING MANAGERIAL CAREERS

Dr. Tamara A. Johnson, Assistant Chancellor for Equity, Diversity, and Inclusion at University of Wisconsin-Eau Claire

Dr. Tamara Johnson's role as assistant chancellor for equity, diversity, and inclusion at the University of Wisconsin-Eau Claire involves supervising and collaborating with various campus entities to ensure their operations continue to support the university's initiatives to foster diversity and equity within the university community. Dr. Johnson oversees the Affirmative Action, Blugold Beginnings (pre-college program), Gender and Sexuality Resource Center, Office of Multicultural Affairs, Ronald E. McNair Program, Services for Students with Disabilities, Student Support Services, University Police, and Upward Bound units and leads campus-wide initiatives to educate and train faculty, students, and staff about cultural awareness, diversity, and institutional equity.

Dr. Johnson's journey to her current role began more than 20 years ago when she worked as a counselor for the Office of Multicultural Student Affairs at the University of Illinois. Her role in this office launched her on a path through university service—Dr. Johnson went on to work as the associate director for University Career Services at Illinois State University, the director for multicultural student affairs at Northwestern University, and the director for faculty diversity initiatives at the University of Chicago. As faculty at the Chicago School of Professional Psychology, Argosy University, and Northwestern University, Dr. Johnson taught counseling courses at the undergraduate, master's, and doctorate levels.

Dr. Johnson's work at the University of Wisconsin-Eau Claire involves developing a program and protocols to ensure all faculty and staff across the institution receive baseline diversity training. In addition, one of her goals is to include criteria related to diversity factors in the evaluations of all faculty/staff. A primary issue that she seeks to address is to increase the awareness of the challenges experienced by underrepresented students. This includes individuals who may come from backgrounds of low income, students of color, first-generation students, and other marginalized groups such as lesbian, gay, bisexual, and transgender students. Dr. Johnson understands the importance of creating initiatives to support individuals in those groups so their specific concerns may be addressed in multiple ways. As you will learn in this chapter, when leaders proactively create an inclusive and supportive climate that values diversity, benefits are produced that result in in positive outcomes for organizations.

12.1 An Introduction to Workplace Diversity

1. What is diversity?

Diversity refers to identity-based differences among and between two or more people[1] that affect their lives as applicants, employees, and customers. These identity-based differences include such things as race and ethnicity, gender, sexual orientation, and age. Groups in society based on these individual differences are referred to as **identity groups**. These differences are related to discrimination and disparities between groups in areas such as education, housing, healthcare, and employment. The term **managing diversity** is commonly used to refer to ways in which organizations seek to ensure that members of diverse groups are valued and treated fairly within organizations[2] in all areas including hiring, compensation, performance evaluation, and customer service activities. The term *valuing diversity* is often used to reflect ways in which organizations show appreciation for diversity among job applicants, employees, and customers.[3] **Inclusion**, which represents the degree to which employees are accepted and treated fairly by their organization,[4] is one way in which companies demonstrate how they value diversity. In the context of today's rapidly changing organizational environment, it is more important than ever to understand diversity in organizational contexts and make progressive strides toward a more inclusive, equitable, and representative workforce.

Three kinds of diversity exist in the workplace (see Table 12.1). **Surface-level diversity** represents an individual's visible characteristics, including, but not limited to, age, body size, visible disabilities, race, or sex.[5] A collective of individuals who share these characteristics is known as an identity group. **Deep-level diversity** includes traits that are nonobservable such as attitudes, values, and beliefs.[6] **Hidden diversity** includes traits that are deep-level but may be concealed or revealed at the discretion of individuals who possess them.[7] These hidden traits are called **invisible social identities**[8] and may include sexual orientation, a hidden disability (such as a mental illness or chronic disease), mixed racial heritage,[9] or socioeconomic status. Researchers investigate these different types of diversity in order to understand how diversity may benefit or hinder organizational outcomes.

Diversity presents challenges that may include managing dysfunctional conflict that can arise from inappropriate interactions between individuals from different groups. Diversity also presents advantages such as broader perspectives and viewpoints. Knowledge about how to manage diversity helps managers mitigate

some of its challenges and reap some of its benefits.

Types of Diversity	
Surface-level diversity	Diversity in the form of characteristics of individuals that are readily visible including, but not limited to, age, body size, visible disabilities, race or sex.
Deep-level diversity	Diversity in characteristics that are nonobservable such as attitudes, values, and beliefs, such as religion.
Hidden diversity	Diversity in characteristics that are deep-level but may be concealed or revealed at discretion by individuals who possess them, such as sexual orientation.

Table 12.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

CONCEPT CHECK

1. What is diversity?
2. What are the three types of diversity encountered in the workplace?

12.2 Diversity and the Workforce

2. How diverse is the workforce?

In 1997, researchers estimated that by the year 2020, 14% of the workforce would be Latino, 11% Black, and 6% Asian.[10] Because of an increase in the number of racial minorities entering the workforce over the past 20 years, most of those projections have been surpassed as of 2016, with a workforce composition of 17% Hispanic or Latino of any race, followed by 12% Black and 6% Asian (see **Exhibit 12.2**). American Indians, Alaska Natives, Native Hawaiians, and Other Pacific Islanders together made up a little over 1% of the labor force, while people of two or more races made up about 2% of the labor force.[11] Women constitute approximately 47% of the workforce compared to approximately 53% for men,[12] and the average age of individuals participating in the labor force has also increased because more employees retire at a later age.[13] Although White people still predominantly make up the workforce with a 78% share,[14] the U.S. workforce is becoming increasingly more diverse, a trend that presents both opportunities and challenges. These demographic shifts in the labor market affect the workforce in a number of ways due to an increasing variety of workers who differ by sex, race, age, sexual orientation, disability status, and immigrant status.

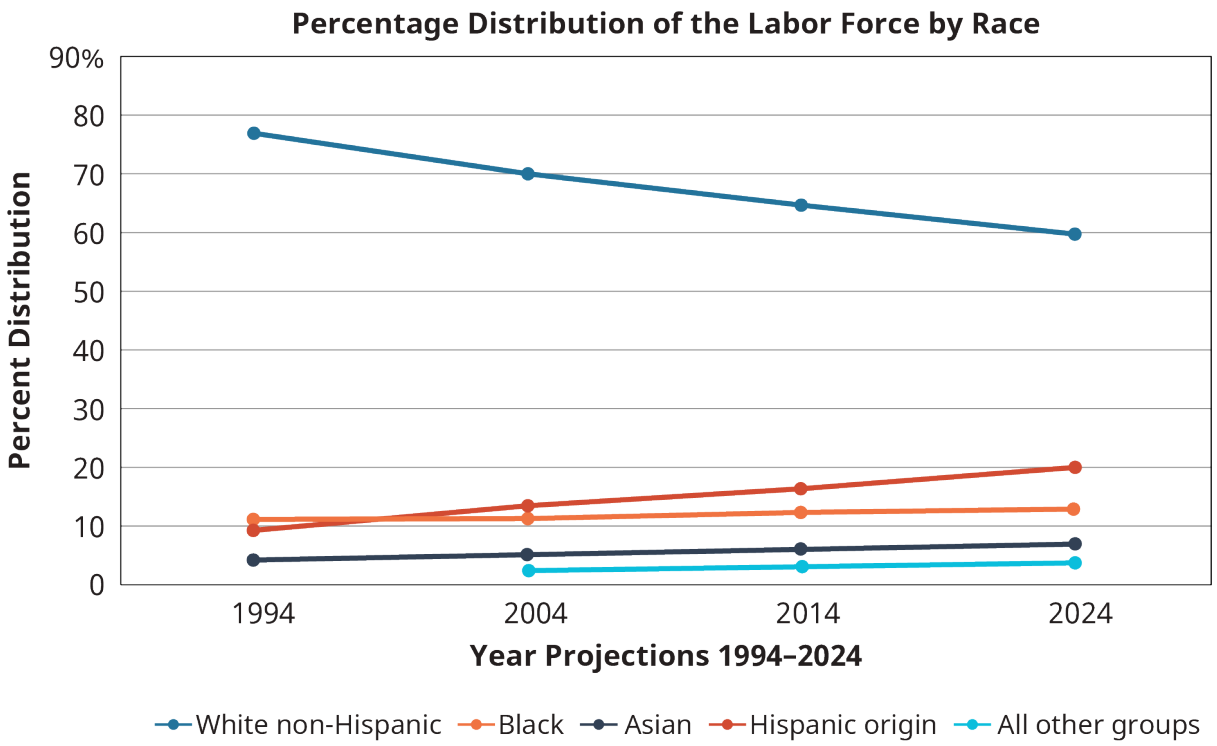


Exhibit 12.2 Percentage distribution of the labor force by race (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Gender

Increasingly more women are entering the workforce.[15] Compared to 59% in 1977, the labor force participation rate for men is now approximately 53% and is expected to decrease through 2024 to 52%.[16] As the labor force participation rate decreases for men, the labor force growth rate for women will be faster. Their percentage of the workforce has steadily risen, as can be seen in **Exhibit 12.3**, which compares the percentage of the workforce by gender in 1977 to 2017.[17]

Although more women are entering the labor force and earning bachelor's degrees at a higher rate than men,[18] women still face a number of challenges at work. The lack of advancement opportunities awarded to qualified women is an example of a major challenge that women face called the **glass ceiling**,[19] which is an invisible barrier based on the prejudicial beliefs that underlie organizational decisions that prevent women from moving beyond certain levels within a company. Additionally, in organizations in which the upper-level managers and decision makers are predominantly men, women are less likely to find mentors, which are instrumental for networking and learning about career opportunities. Organizations can mitigate this challenge by providing mentors for all new employees. Such a policy would help create a more equal playing field for all employees as they learn to orient themselves and navigate within the organization.

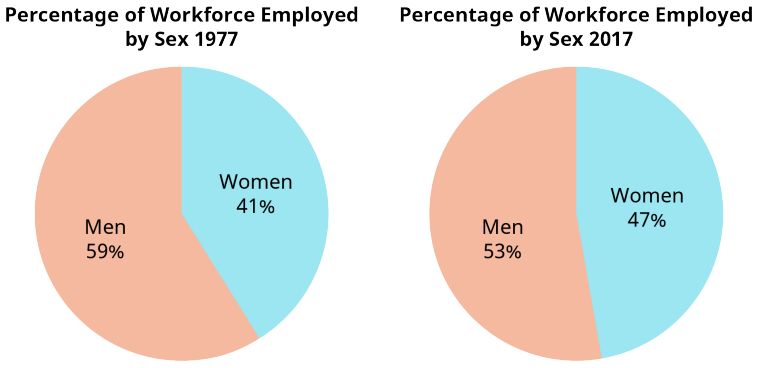


Exhibit 12.3 Percentage Distribution of the Labor Force by Sex (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0

license)

One factor that greatly affects women in organizations is **sexual harassment**. Sexual harassment is illegal, and workers are protected from it by federal legislation.[20] Two forms of sexual harassment that can occur at work are quid pro quo and hostile environment.[21] Quid pro quo harassment refers to the exchange of rewards for sexual favors or punishments for refusal to grant sexual favors. Harassment that creates a hostile environment refers to behaviors that create an abusive work climate. If employees are penalized (for example by being demoted or transferred to another department) for refusing to respond to repeated sexual advances, quid pro quo sexual harassment has taken place. The telling of lewd jokes, the posting of pornographic material at work, or making offensive comments about women in general are examples of actions that are considered to create a hostile work environment. According to the Equal Employment Opportunity Commission, sexual harassment is defined as the "unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature. Harassment can also include offensive remarks about a person's sex."[22] Although both men and women can be sexually harassed, women are sexually harassed at work more often.[23] In addition, Black and other minority women are especially likely to be subjected to sexual discrimination and harassment.[24]



Exhibit 12.4 Tamara Johnson The treatment of women in business has become a hot topic in corporate boardrooms, human resources departments, and investment committees. Tamara Johnson, who is profiled in the opening feature to this chapter, moves beyond simply acknowledging widespread discrimination to focusing on solutions. Also on the agenda: the need to improve diversity and inclusion across the board and breaking through the glass ceiling. (Credit: Tamara Johnson/ Attribution 2.0 Generic (CC BY 2.0))

It is in the organization's best interest to prevent sexual harassment from occurring. Ways to do this include companies providing ongoing (e.g., annual) training so that employees are able to recognize sexual harassment. Employees should know what constitutes acceptable and unacceptable behavior and what channels and protocols are in place for reporting unacceptable behaviors. Managers should understand their role and responsibilities regarding harassment prevention, and a clear and understandable policy should be communicated throughout the organization.

Just as gender-based discrimination is illegal and inappropriate, so is discrimination or mistreatment based on pregnancy, childbirth, or related medical conditions. While organizations may have different policies regarding maternity and paternity leave, they must comply with both the Pregnancy Discrimination Act and the Family Medical Leave Act.

Race

Another important demographic shift in workforce diversity is the distribution of race. (Note that we are using categories defined by the U.S. Census Bureau. It uses the term "Black (African American)" to categorize U.S. residents. In this chapter, we use the term "Black.")

While the White non-Hispanic share of the workforce continues to shrink, the share of racial and ethnic minority groups will continue to grow.[25] Specifically, Hispanic people and Asian people will grow at a faster rate than other racial minorities, and Hispanic people are projected to make up almost one-fifth of the labor force by 2024.[26] The projected changes in labor force composition between 2014 and 2024 are as follows:

White non-Hispanic participation in the labor force will decline by 3%. Other groups' share of the labor force is expected to increase: Black (10.1%), Hispanic/Latino (28%), Asian (23.2%), and Other groups (i.e., multiracial, American Indian, Alaska Native, Native Hawaiian, and Other Pacific Islanders) labor force share is expected to increase by 22.2%.[27] With the workforce changing, managers will need to be mindful of issues employees encounter that are uniquely tied to their experiences based on race and ethnicity, including harassment, discrimination, stereotyping, and differential treatment by coworkers and decision makers in organizations.

Discrimination Against Black Employees

Race is one of the most frequent grounds for discrimination.[28] Although Black people do not make up the largest share of the workforce for racial minorities, research studies show they face discrimination more often than other racial minorities. As a matter of fact, some experts believe that hiring discrimination against Black people has not declined over the past 25 years while workplace discrimination against other racial minority groups has declined.[29]

ETHICS IN PRACTICE



Discrimination in the Sharing Economy—#AirbnbWhileBlack

Airbnb, a popular home-sharing website founded in San Francisco in 2008, offers millions of homes for short-term rental in more than 190 countries. This company has revolutionized the sharing economy in the same way that ride-sharing services such as Uber and Lyft have, and according to the company, the site's drive to connect hosts and potential renters has been able to contribute to the quality of life of both homeowners and travelers. According to Airbnb's press releases and information campaigns, their services can reduce housing costs for travelers on a budget and can provide unique experiences for adventurous travelers who wish to have the flexibility to experience a city like a local. The organization also claims that most of its users are homeowners looking to supplement their incomes by renting out rooms in their homes or by occasionally renting out their whole homes. According to a statement, most of the listings on the site are rented out fewer than 50 nights per year.

Despite the carefully crafted messages Airbnb has presented to the public, in 2016 the company came under intense scrutiny when independent analyses by researchers and journalists revealed something startling: While some Airbnb hosts did in fact use the services only occasionally, a significant number of hosts were using the services as though they were hotels. These hosts purchased a large number of properties and continuously rented them, a practice that affected the availability of affordable housing in cities and, because these hosts were not officially registered as hoteliers, made it possible for Airbnb hosts to avoid paying the taxes and abiding by the laws that hotels are subject to.

Title II of the Civil Rights Act of 1964 mandates that hotels and other public accommodations must not discriminate based on race, national origin, sex, or religion, and Title VIII of the Civil Rights Act of 1968 (also known as the Fair Housing Act [FHA]) prohibits discrimination specifically in housing. However, Airbnb's

unique structure allows it to circumvent those laws. The company also claims that while it encourages hosts to comply with local and federal laws, it is absolved from responsibility if any of its hosts break these laws. In 2017, researcher Ben Edelman conducted a field experiment and found that Airbnb users looking to rent homes were 16% less likely to have their requests to book accepted if they had traditionally African American sounding names like Tamika, Darnell, and Rasheed.

These findings, coupled with a viral social media campaign, #AirbnbWhileBlack, in which users claimed they were denied housing requests based on their race, prompted the state of California's Department of Fair Employment and Housing (DFEH) to file a complaint against the company. In an effort to resolve the complaint, Airbnb reported banning any hosts who were found to have engaged in discriminatory practices, and they hired former U.S. Attorney General Eric Holder and former ACLU official Laura Murphy to investigate any claims of discrimination within the company.[30] In 2016, Airbnb released a statement outlining changes to company practices and policies to combat discrimination, and while they initially resisted demands by the DFEH to conduct an audit of their practices, the company eventually agreed to an audit of roughly 6,000 of the hosts in California who have the highest volume of properties listed on the site.

Sources: AirBnB Press Room, accessed December 24, 2018, https://press.atairbnb.com/about-us/; "Airbnb's data shows that Airbnb helps the middle class. But does it?", *The Guardian*, accessed December 23, 2018, https://www.theguardian.com/technology/2016/jul/27/airbnb-panel-democratic-national-convention-survey ; and Quittner, Jeremy, "Airbnb and Discrimination: Why It's All So Confusing", *Fortune*, June 23, 2016, http://fortune.com/2016/06/23/airbnb-discrimination-laws/.

Discussion Questions

1. What are some efforts companies in the sharing economy can take before problems of discrimination threaten to disrupt operations?
2. Should Airbnb be held responsible for discriminatory actions of its hosts?

Currently, White men have higher participation rates in the workforce than do Black men,[31] and Black women have slightly higher participation rates than White women.[32] Despite growth and gains in both Black education and Black employment, a Black person is considerably more likely to be unemployed than a White person, even when the White person has a lower level of education[33] or a criminal record.[34]

Black people frequently experience discrimination in the workplace in spite of extensive legislation in place to prohibit such discrimination. Research has shown that stereotypes and prejudices about Black people can cause them to be denied the opportunity for employment when compared to equally qualified White people.[35] It is estimated that about 25% of businesses have no minority workers and another 25% have less than 10% minority workers.[36] In terms of employed Black people, research has shown that, regardless of managers' race, managers tended to give significantly higher performance ratings to employees who were racially similar to them. Because White people are much more likely to be managers than Black people, this similarity effect tends to advantage White employees over Black employees.[37] Black people are also significantly more likely to be hired in positions that require low skills, offer little to no room for growth, and pay less. These negative employment experiences affect both the mental and physical health of Black employees.[38]

Hispanic/Latino

Hispanic people are the second-fastest-growing minority group in the United States behind Asian people,[39] and they make up 17% of the labor force.[40] Despite this and the fact that Hispanic people have the highest labor participation rate of all the minority groups, they still face discrimination and harassment in similar ways to other minority groups. (Note that we are again using the categories as defined by the U.S. Census Bureau, which predominantly uses the term "Hispanic" to refer to people of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin.)

Hispanic people can be of any race.[41] As a matter of fact, increasingly more Hispanic people are identifying racially as White. In 2004 almost half of Hispanic people identified themselves racially as White, while just under half identified themselves as "some other race."[42] More than 10 years later, approximately 66% of Hispanic people now identify themselves racially as White while only 26% identify themselves as "some other race."[43] The remaining Hispanic population, totaling approximately 7%, identify as either Black, American Indian, Asian, Alaskan Native, Pacific Islander, or Native Hawaiian.[44]

Why would a minority identity group identify racially as White? A Pew study found that the longer Hispanic families lived in the United States, the more likely they were to claim White as their race even if they had not done so in the past.[45] This suggests that upward mobility in America may be perceived by some Hispanic people to be equated with "Whiteness."[46] Consequently, Hispanic people who self-identify racially as White experience higher rates of education and salary, and lower rates of unemployment.[47] Additionally, only 29% of Hispanic people polled by the Pew Hispanic Center believe they share a common culture.[48] According to the Pew Research Center, this finding may be due to the fact that the Hispanic ethnic group in the United States is made up of at least 14 Hispanic origin groups (such as Puerto Rican, Cuban, Spanish, Mexican, Dominican, and Guatemalan, among many others).[49] Each of these groups has its own culture with different customs, values, and norms.

These cultural differences among the various Hispanic groups, combined with different self-perceptions of race, may also affect attitudes toward their workplace environment. For example, one study found that the absenteeism rate among Black people was related to the level of diversity policies and activities visible in the organization, while the absenteeism rate among Hispanic people was similar to that of White people and not related to those diversity cues.[50] Results from this study suggest that managers need to be aware of how diversity impacts their workplace, namely addressing the relationship between Hispanic job seekers or workers and organizational outcomes concerning diversity policies as it may differ from that of other racial minorities.

Asian and Asian American

Asian people are the fastest-growing ethnic group in the United States, growing 72% between 2000 and 2015.[51] Compared to the rest of the U.S. population overall, households headed by Asian Americans earn more money and are more likely to have household members who hold a bachelor's degree.[52] However, there is a wide range of income levels among the Asian population that differs between the more than 19 groups of Asian origin in the United States.[53]

Similar to other racial and ethnic minority groups, Asian people are stereotyped and face discrimination at work. Society through media often stereotypes Asian men as having limited English-speaking skills and as being highly educated, affluent, analytical, and good at math and science.[54] Asian women are often portrayed as weak and docile.[55] For Asian women, and other minority women as well, social stereotypes depicting them as exotic contribute to reports of sexual harassment from women minority groups.[56]

The **model minority myth**[57] is a reflection of perceptions targeting Asian people and Asian Americans that contrast the stereotypes of "conformity" and "success" of Asian men with stereotypes of "rebelliousness" and "laziness" of other minority men. It also contrasts the stereotyped "exotic" and "obedient" nature of Asian women against the stereotypical beliefs that White women are "independent" and "pure."[58] These perceptions are used not only to invalidate injustice that occurs among other racial minorities, but also to create barriers for Asian and Asian Americans seeking leadership opportunities as they are steered toward "behind the scenes" positions that require less engagement with others. These stereotypes also relegate Asian women into submissive roles in organizations, making it challenging for Asian men and women to advance in rank at the same rate as White male employees.[59]

Multiracial

Although the U.S. Census Bureau estimates that approximately 2% of the U.S. population describes themselves

as belonging to more than one race, the Pew Research Center estimates that number should be higher, with around 7% of the U.S. population considered multiracial.[60] This is due to the fact that some individuals may claim one race for themselves even though they have parents from different racial backgrounds. To complicate matters even more, when collecting data from multiracial group members, racial identity for individuals in this group may change over time because race is a social construct that is not necessarily based on a shared culture or country of origin in the same way as ethnicity. As a result, multiracial individuals (and Hispanic people) have admitted to changing their racial identity over the course of their life and even based on the situation. Approximately 30% of multiracial individuals polled by the Pew Research Center say that they have varied between viewing themselves as belonging to one race or belonging to multiple races. Within the group polled, the order in which they first racially identified as belonging to one racial group versus belonging to more than one group varied.[61]

Despite the fact that multiracial births have risen tenfold between 1970 and 2013,[62] their participation in the labor force is only around 2%.[63] Additionally, multiracial individuals with a White racial background are still considered a racial minority unless they identify themselves solely as White, and approximately 56% of them on average say they have been subjected to racial jokes and slurs.[64] Discrimination also varies when multiracial groups are broken down further, with Black–American Indians having the highest percentage of individuals reporting discrimination and White–Asian people having the lowest percentage.[65]

At work, multiracial employees are sometimes mistaken for races other than their own. If their racial minority background is visible to others, they may experience negative differential treatment. Sometimes they are not identified as having a racial or ethnic minority background and are privy to disparaging comments from unsuspecting coworkers about their own race, which can be demoralizing and can lead to lower organizational attachment and emotional strain related to concealing their identity.[66]

Other Groups

Approximately 1% of the labor force identifies as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or some other race.[67]

Age

The age distribution of an organization's workforce is an important dimension of workplace diversity as the working population gets older. Some primary factors contributing to an older population include the aging of the large Baby Boomer generation (people born between 1946 and 1964), lower birth rates, and longer life expectancies[68] due to advances in medical technology and access to health care. As a result, many individuals work past the traditional age of retirement (65 years old) and work more years than previous generations in order to maintain their cost of living.

Exhibit 12.5 compares the percentage of the population over the age of 65 to those under the age of 18 between 2010 and 2016. The number of older individuals has increased and is projected to reach 20.6% by the year 2030 while the number of younger individuals has steadily decreased within that time period. These numbers imply that organizations will increasingly have employees across a wide range of ages, and cross-generational interaction can be difficult to manage. Although older workers are viewed as agreeable and comfortable to work with, they are also stereotyped by some employees as incompetent[69] and less interested in learning new tasks at work compared to younger workers.[70] Studies have found support for the proposition that age negatively relates to cognitive functioning.[71] However, if managers offer less opportunity to older workers solely because of declining cognitive functioning, it can be detrimental to organizational performance because older workers outperform younger workers on a number of other job performance measures. Compared to younger workers, older workers are more likely to perform above their job expectations and follow safety protocols. They are also less likely to be tardy, absent, or abuse drugs or alcohol at work compared to their younger counterparts.

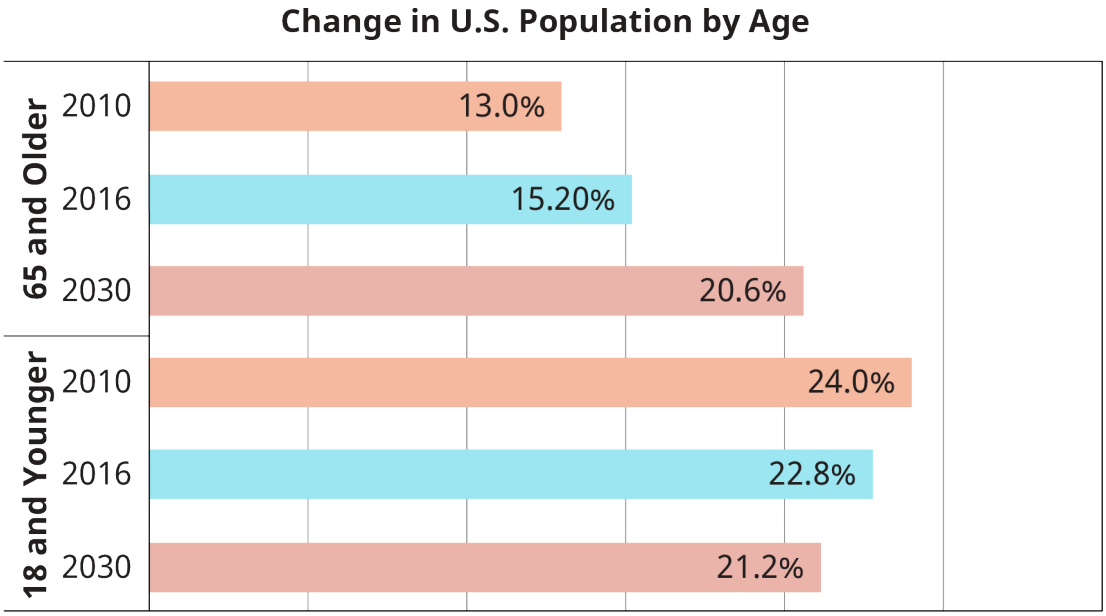


Exhibit 12.5 Change in U.S. population by age (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Sexual Orientation and Gender Identity

Sexual orientation diversity is increasing in the workforce. In June, 2020, the Supreme Court ruled that the Civil Rights Act prohibits discrimination based on sexual orientation and gender identity. Until this ruling, only 21 states and Washington D.C. prohibited such discrimination.[72] With this new federal protection, individuals cannot for employment or fired for their sexual orientation , gender identity, or gender expression.[73] However, although the Civil Rights Act does not provide federal protection to lesbian, gay, bisexual and transgender, and queer/questioning (LGBTQ) employees, that protection is not complete. LGBTQ people can still face other types of discrimination inside and outside of the workplace, and some employers and lawmakers may take up the issue in the future. On a positive note, more than half of the Fortune 500 companies have corporate policies that protect sexual minorities from discrimination at work and offer domestic-partner benefits.[74] Many employers are beginning to understand that being perceived as inclusive will make them more attractive to a larger pool of job applicants.[75] Furthermore, many organizations have come to recognize that gender and sexual orientation equity aligns to their mission and ethics.

Unfortunately, the percentage of hate crimes relating to sexual orientation discrimination has increased.[76] Indeed, LGBTQ employees are stigmatized so much that in a recent study, researchers found that straight-identifying participants were more attracted to employers with no job security to offer them compared to gay-friendly employers.[77] In other words, individuals would waive job security to avoid working with sexual minorities. Also, compared to heterosexuals, sexual minorities have higher education levels[78] but still face hiring and treatment discrimination frequently.[79]

LGBTQ employees are often faced with the decision of whether or not to be truthful about their sexual orientation at work for fear of being stigmatized and treated unfairly. To be clear, any stigmatization is the fault of the people who mistreat others, and sometimes even the organization itself. But as a result, LGTBQ and other people may choose to engage in what is sometimes called passing, or the decision not to disclose something about oneself. Passing often involves a great risk of emotional strain that can affect performance and wellbeing.[80] Individuals who pass may distance themselves from coworkers or clients to avoid disclosure about their personal life. This behavior can also result in decreased networking and mentoring opportunities, which over time can limit advancement opportunities. The decision to be transparent about sexual orientation is sometimes called **revealing**.[81] Just like passing, revealing has its own set of risks including being ostracized, stigmatized, and subjected to other forms of discrimination at work. However, compared to passing, the benefits of building relationships at work and using their identity as a catalyst for tolerance and progressive

organizational change may outweigh the risks when LGBTQ employees decide to reveal. The decision to "come out" should be made exclusively by the individual; "outing" someone else as any sexual orientation or gender identity is considered highly inappropriate and hurtful, and may have employment-related consequences.

Research shows that when laws are passed to prevent sexual orientation discrimination, incidents of workplace discrimination decrease.[82] This same effect occurs when firms adopt policies that protect the rights of sexual minority employees.[83] By creating a safe and inclusive work environment for LGBTQ employees, companies can create a culture of tolerance and trust for all employees regardless of their sexual orientation or gender identity.

MANAGING CHANGE



Removing Bias In Recruiting

An increasing number of companies are testing new and innovative methods of recruiting. In many cases, firms remove any identifying information about applicants during the recruitment process. An example of this may include anonymous applications that omit fields requesting information such as an applicant's name or age. Using computer application technology, some companies like Google administer surveys to their anonymous applicants that measure the abilities required for the job before they are considered in the next step of the recruitment process. Alternatively, companies may request that applicants remove identifying information such as names and address from their resumes before applying for positions. As resumes are received, hiring managers can assign a temporary identification number.

Although more companies are using this method of recruiting, the idea is not new for symphony orchestras, many of which have been using this type of auditioning since the 1970s. In some instances musicians audition behind screens so they are evaluated only by their music. This process removes bias associated with race and gender because the performer cannot be seen and only heard. A study investigating this practice examined 11 symphony orchestras that varied their auditions. Researchers found that those orchestras that held "unseen" auditions increased the likelihood that a woman would be hired by between 25 and 46%. A recruitment process like this can help organizations attract more candidates, hire the best talent, increase their workplace diversity, and avoid discrimination liability.

In other efforts, organizations work to alter their job descriptions to remove terms that result in gender or other biases. By involving diversity and equity experts, and sometimes using artificial intelligence-based language analysis, recruiters can eliminate unintended barriers and improve their hiring processes.
Sources: Grothaus, M. (Mar 14 2016). How "blind" recruitment works and why you should consider it. Fast Company. Retrieved from https://www.fastcompany.com/3057631/how-blind-recruitment-works-and-why-you-should-consider; and MIller, C.C. (Feb 25 2016). Is blind hiring the best hiring? The New York Times Magazine. Retrieved from https://www.nytimes.com/2016/02/28/magazine/is-blind-hiring-the-best-hiring.html.

Discussion Questions

1. Should all companies change their resume screening and interview processes to eliminate biases or are there exceptions that must be considered?
2. If improved recruiting helps eliminate bias during the recruitment process, then what does that say about social media platforms such as Linked In that are commonly used for recruiting applicants? Will using those platforms expose companies to greater liability compared to using more traditional means of recruiting?
3. How does working to eliminate bias recruiting help organizations? How may it hinder organizations?

Immigrant Workers

Every year a new record is set for the time it takes to reach the U.S. cap of H-1B visas granted to employers.[84] H- 1B visas are a type of **work visa**, a temporary documented status that authorizes individuals to permanently or temporarily live and work in the United States.[85] As a result of the demand for work visas by employers, the number of immigrant workers in the U.S. workforce has steadily grown within the last decade from 15% in 2005 to 17% in 2016.[86] Compared to those born in the United States, the immigrant population in America is growing significantly faster.[87] This is partly because of the U.S. demand for workers who are proficient in math and science[88] and wish to work in America.

Although a huge demand for immigrant labor exists in the United States, immigrant labor exploitation occurs, with immigrant employees receiving lower wages and working longer hours compared to American workers.[89] Foreign-born job seekers are attracted to companies that emphasize work visa sponsorship for international employees, yet they are still mindful of their vulnerability to unethical employers who may try to exploit them. For example, Lambert and colleagues found that some of the job-seeking MBA students from the Philippines in their study believed that companies perceived to value international diversity and sponsor H-1B visas signaled a company wishing to exploit workers.[90] Others believed that those types of companies might yield diminishing returns to each Filipino in the company because their token value becomes limited. In news stories, companies have been accused of drastically shortchanging foreign student interns on their weekly wages.[91] In another case, Infosys, a technology consulting company, paid $34 million to settle allegations of visa fraud due to suspicion of underpaying foreign workers to increase profits.[92]

Other Forms of Diversity at Work

Workers with disabilities are projected to experience a 10% increase in job growth through the year 2022.[93] This means that more public and corporate policies will be revised to allow greater access to training for workers with disabilities and employers.[94] Also, more companies will use technology and emphasize educating employees about physical and mental disabilities as workplace accommodations are used more often.

In the past, the United States has traditionally been a country with citizens who predominantly practice the Christian faith. However, over the past almost 30 years the percentage of Americans who identify as Christian has significantly decreased—by approximately 12%. Over that same time period, affiliation with other religions overall increased by approximately 25%.[95] The increase in immigrant workers from Asian and Middle Eastern countries means that employers must be prepared to accommodate religious beliefs other than Christianity. Although federal legislation protects employees from discrimination on the basis of race, religion, and disability status, many employers have put in place policies of their own to deal with the variety of diversity that is increasingly entering the workforce.

CONCEPT CHECK

1. How is diversity defined in relation to the workplace?
2. What are the components that make up a diverse workplace and workforce?

12.3 Diversity and Its Impact on Companies

3. How does diversity impact companies and the workforce?

Due to trends in globalization and increasing ethnic and gender diversity, it is imperative that employers learn how to manage cultural differences and individual work attitudes. As the labor force becomes more diverse there are both opportunities and challenges to managing employees in a diverse work climate. Opportunities include gaining a competitive edge by embracing change in the marketplace and the labor force. Challenges

include effectively managing employees with different attitudes, values, and beliefs, in addition to avoiding liability when leadership handles various work situations improperly.

Reaping the Advantages of Diversity

The business case for diversity introduced by Taylor Cox and Stacy Blake outlines how companies may obtain a competitive advantage by embracing workplace diversity.[96] Six opportunities that companies may receive when pursuing a strategy that values diversity include cost advantages, improved resource acquisition, greater marketing ability, system flexibility, and enhanced creativity and better problem solving (see **Exhibit 12.6**).



Exhibit 12.6 Managing Cultural Diversity (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Cost Advantages

Traits such as race, gender, age, and religion are protected by federal legislation against various forms of discrimination (covered later in this chapter). Organizations that have policies and procedures in place that encourage tolerance for a work climate of diversity and protect female and minority employees and applicants from discrimination may reduce their likelihood of being sued due to workplace discrimination. Cox and Blake identify this decreased liability as an opportunity for organizations to reduce potential expenses in lawsuit damages compared to other organizations that do not have such policies in place.

Additionally, organizations with a more visible climate of diversity experience lower turnover among women and minorities compared to companies that are perceived to not value diversity.[97] Turnover costs can be substantial for companies over time, and diverse companies may ameliorate turnover by retaining their female and minority employees. Although there is also research showing that organizations that value diversity experience a higher turnover of White employees and male employees compared to companies that are less diverse,[98] some experts believe this is due to a lack of understanding of how to effectively manage diversity. Also, some research shows that White people with a strong ethnic identity are attracted to diverse organizations similarly to non-White people.[99]

Resource Acquisition

Human capital is an important resource of organizations, and it is acquired through the knowledge, skills, and

abilities of employees. Organizations perceived to value diversity attract more women and minority job applicants to hire as employees. Studies show that women and minorities have greater job-pursuit intentions and higher attraction toward organizations that promote workplace diversity in their recruitment materials compared to organizations that do not.[100] When employers attract minority applicants, their labor pool increases in size compared to organizations that are not attractive to them. As organizations attract more job candidates, the chances of hiring quality employees increases, especially for jobs that demand highly skilled labor. In summary, organizations gain a competitive advantage by enlarging their labor pool by attracting women and minorities.

Marketing

When organizations employ individuals from different backgrounds, they gain broad perspectives regarding consumer preferences of different cultures. Organizations can gain insightful knowledge and feedback from demographic markets about the products and services they provide. Additionally, organizations that value diversity enhance their reputation with the market they serve, thereby attracting new customers.

System Flexibility

When employees are placed in a culturally diverse work environment, they learn to interact effectively with individuals who possess different attitudes, values, and beliefs. Cox and Blake contend that the ability to effectively interact with individuals who differ from oneself builds *cognitive flexibility*, the ability to think about things differently and adapt one's perspective. When employees possess cognitive flexibility, system flexibility develops at the organizational level. Employees learn from each other how to tolerate differences in opinions and ideas, which allows communication to flow more freely and group interaction to be more effective.

Creativity and Problem Solving

Teams from diverse backgrounds produce multiple points of view, which can lead to innovative ideas. Different perspectives lead to a greater number of choices to select from when addressing a problem or issue.

Life experience varies from person to person, sometimes based on race, age, or sex. Creativity has the opportunity to flourish when those experiences are shared. Diverse teams not only produce more alternatives, but generate a broader range of perspectives to address tasks and problems. One way in which diverse teams enhance problem-solving ability is by preventing **groupthink**,[101] a dysfunction in decision-making that occurs in homogeneous groups as a result of group pressures and group members' desire for conformity and consensus. Diverse group membership prevents groupthink because individuals from varied backgrounds with different values, attitudes, and beliefs can test the assumptions and reasoning of group members' ideas.

Aligning Diversity Programs with an Organization's Mission and Strategic Goals

Diversity helps organizations perform best when it is aligned with a specific business strategy. For example, when companies use heterogeneous management teams that are directed by an entrepreneurial strategy focusing on innovation, the companies' productivity increases.

When an entrepreneurial strategy is not present, however, team diversity has little effect on productivity.[102] An entrepreneurial strategy includes innovation that reflects a company's commitment to being creative, supporting new ideas, and supporting experimentation as a way to gain a competitive advantage. In other words, managers may properly utilize the multiple perspectives that emerge from heterogeneous teams by integrating them as a resource for pursuing the overall strategy of the organization.

Using Human Resources Tools Strategically

To effectively align diversity with an organization's strategy, the human resources function must be able to engage employees at dynamic levels. Using a strategic human resources management approach to an organization can successfully integrate diversity with the organization's goals and objectives.[103] **Strategic**

human resources management (SHRM) is a system of activities arranged to engage employees in a manner that assists the organization in achieving a sustainable competitive advantage. SHRM practices vertically integrate with the mission and strategy of the organization while horizontally integrating human resources activities across its functional areas. By doing so, a unique set of resources can be made available to specific to the needs of the organization. Furthermore, when human resources becomes a part of the strategic planning process instead of just providing ancillary services, improved communication, knowledge sharing, and greater synergy between decision makers can occur within the organization to improve organizational functioning.

The **resource-based view** of the firm has been used to support the argument for diversity because it demonstrates how a diverse workforce can create a sustainable competitive advantage for organizations. Based on the resource-based view of the firm, when companies possess resources that are rare, valuable, difficult to imitate, and non-substitutable, a sustained competitive advantage can be attained.[104] The SHRM approach assumes that human capital—the current and potential knowledge, skills, and abilities of employees—is instrumental to every organization's success and sustainability and longevity.

If a diverse composition of employees within organizations is rare, employing minorities in positions of leadership is even rarer. One exception is Northern Trust, an investment management firm that was recently listed on Forbes magazine's 2018 Best Employers for Diversity list.[105] Thirty-eight percent of Northern Trust's top executives are women, which is impressive because it matches the average percentage of women in full-time one-year MBA programs over the past five years.[106] The average for S&P 500 companies is just 27%. In addition, African Americans make up 23% of Northern Trust's board, which also demonstrates the commitment Northern Trust has to diversity. This rare degree of diversity helps Northern Trust become an employer of choice for minorities and women. In turn, attracting minority applicants increases the labor pool available to Northern Trust and increases its ability to find good talent.



Exhibit 12.7 Bank staff watching presentation The Disability Awareness Players present to the staff at Northern Trust. (Credit: JJ's List/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Diverse companies may capitalize on the multiple perspectives that employees from different backgrounds contribute to problem solving and idea generation. In group settings, members from collectivist cultures from Asia and South America, for example, engage with others on tasks differently than members from North America. Similarly, Asian, Black, and Hispanic people usually act more collectively and engage more interdependently than White people, who are generally more individualistic. More harmonious working interactions benefit group cohesion and team performance,[107] and employees can grasp better ways of doing things when there is a diverse population to learn from.

For a company to attain a sustained competitive advantage, its human resource practices must be difficult to

copy or imitate. As we will see later in the chapter, companies may hold one of three perspectives on workplace diversity. The integration and learning perspective results in the best outcomes for employees and the organization. However, it is not easy to become an employer that can effectively manage diversity and avoid the challenges we learned about earlier in this chapter. Historical conditions and often-complex interplay between various organizational units over time can contribute to a company's ability to perform effectively as a diverse organization. Best practices for targeting diverse applicants or resolving conflicts based on cultural differences between employees may occur organically and later become codified into the organizational culture. Sometimes, however, the origin of diversity practices is unknown because they arose from cooperation among different functional areas (e.g., marketing and human resources working strategically with leadership to develop recruitment ideas) that occurred so long ago that not even the company itself, let alone other companies, could replicate the process.

Diversity and Organizational Performance

Research indicates that having diversity in an organization produces mixed results for its success. Some studies show a positive relationship, some show a negative relationship, and others show no relationship between diversity and performance. Some researchers believe that although findings regarding a direct relationship between diversity and success in the marketplace may be inconsistent, the relationship may be due to other variables not taken into account.

Taking the resource-based view perspective, Richard and colleagues demonstrated that racially diverse banking institutions focused on innovation experienced greater performance than did racially diverse banks with a low focus on innovation.[108] These findings suggest that for the potential of racial diversity to be fully realized, companies should properly manage the system flexibility, creativity, and problem-solving abilities used in an innovative strategy. Other studies show that when top management includes female leadership, firm performance improves when organizations are innovation driven.[109]

CONCEPT CHECK

1. What are the challenges and opportunities that diversity provides to companies?
2. What are the responsibilities of human resources regarding diversity?
3. Can diversity be a strategic advantage to organizations?

12.4 Challenges of Diversity

4. What is workplace discrimination, and how does it affect different social identity groups?

Although diversity has it benefits, there are also challenges that managers must face that can only be addressed with proper leadership. Some of the most common challenges observed in organizations and studied in research include lower organizational attachment and misunderstanding work diversity initiatives and programs.

Lower Organizational Attachment

Although diversity programs attract and retain women and minorities, they may have the opposite effect on other, nonminority employees. When diversity is not managed effectively, White and male employees can feel alienated from or targeted by the organization as diversity programs are put in place. A study that examined 151 work groups across three large organizations investigated whether the proportion of group membership based on race or sex affected the group members' absentee rates, psychological attachment to their work group, and turnover intentions,[110] three factors that play significant roles in an employee's attachment to their organization. Results showed a positive relationship between group heterogeneity and lower organizational

attachment, higher turnover intentions, and greater frequency of absences for men and for White group members. In other words, as work group diversity increased, White employees and male employees felt less attached to the organization and were more likely to quit. Because heterogeneous groups improve creativity and judgement, managers should not avoid using them because they may be challenging to manage. Instead, employers need to make sure they understand the communication structure and decision-making styles of their work groups and seek feedback from employees to learn how dominant group members may adjust to diversity.

Legal Challenges and Diversity

The legal system is used to combat discrimination. Among the ways that we will cover here are reverse discrimination, workplace discrimination, harassment, age discrimination, disability discrimination, national origin discrimination, pregnancy discrimination, race/color discrimination, religious discrimination, sex-based discrimination and other forms of discrimination.

Reverse Discrimination

As research shows, workplace discrimination against women and racial or ethnic minorities is common. **Reverse discrimination** is a term that has been used to describe a situation in which dominant group members perceive that they are experiencing discrimination based on their race or sex. This type of discrimination is uncommon, but is usually claimed when the dominant group perceives that members of a protected (diverse) class of citizens are given preference in workplace or educational opportunities based not on their merit or talents, but on a prescribed preferential treatment awarded only on the basis of race or sex.

Research conducted in the 1990s shows that only six federal cases of reverse discrimination were upheld over a four-year period (1990–1994), and only 100 of the 3,000 cases for discrimination over that same four-year period were claims of reverse discrimination.[111] Interestingly, a recent poll administered by the Robert Wood Johnson Foundation and the Harvard T.H. Chan School of Public Health found that a little more than half of White Americans believe that White people face discrimination overall, and 19% believe they have experienced hiring discrimination due to the color of their skin.[112] This misperception stems in part from the recalibration of the labor force as it become more balanced due to increased equal employment opportunities for everyone. Members of dominant identity groups, White people and men, perceive fewer opportunities for themselves when they observe the workforce becoming more diverse. In reality, the workforce of a majority of companies is still predominantly White and male employees. The only difference is that legislation protecting employees from discrimination and improvements in equal access to education have created opportunities for minority group members when before there were none.

Workplace Discrimination

Workplace discrimination occurs when an employee or an applicant is treated unfairly at work or in the job-hiring process due to an identity group, condition, or personal characteristic such as the ones mentioned above. Discrimination can occur through marital status, for example when a person experiences workplace discrimination because of the characteristics of a person to whom they are married. Discrimination can also occur when the offender is of the same protected status of the victim, for example when someone discriminates against someone based on a national origin that they both share.

The **Equal Employment Opportunity Commission** (EEOC) was created by Title VII of the Civil Rights Act of 1964 with the primary goal of making it illegal to discriminate against someone in the workplace due to their race, national origin, sex, disability, religion, or pregnancy status.[113], and the 2020 Supreme Court decision upheld the same protections for sexual orientation and gender identity. The EEOC enforces laws and issues guidelines for employment-related treatment. It also has the authority to investigate charges of workplace discrimination, attempt to settle the charges, and, if necessary, file lawsuits when the law has been broken.

All types of workplace discrimination are prohibited under different laws enacted and enforced by the EEOC,

which also considers workplace harassment and sexual harassment forms of workplace discrimination and mandates that men and women must be given the same pay for equal work.[114]

The provision for equal pay is covered under the **Equal Pay Act of 1963**, which was an amendment to the Fair Labor Standards Act of 1938. Virtually all employers are subject to the provisions of the act, which was an attempt to address pay inequities between men and women. More than 50 years later, however, women still earn about 80 cents to every dollar that men earn, even while performing the same or similar jobs.[115]

Harassment

Harassment is any unwelcome conduct that is based on characteristics such as age, race, national origin, disability, gender, or pregnancy status. Harassment is a form of workplace discrimination that violates Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, and the Americans with Disabilities Act of 1990.[116]

Sexual harassment specifically refers to harassment based on a person's sex, and it can (but does not have to) include unwanted sexual advances, requests for sexual favors, or physical and verbal acts of a sexual nature. Though members of any sex can be the victim of sexual harassment, women are the primary targets of this type of harassment.[117]

Age Discrimination

Age discrimination consists of treating an employee or applicant less favorably due to their age. The **Age Discrimination in Employment Act (ADEA)** forbids discrimination against individuals who are age 40 and above. The act prohibits harassment because of age, which can include offensive or derogatory remarks that create a hostile work environment.[118]

Disability Discrimination

A person with a disability is a person who has a physical or mental impairment that limits one or more of the person's life actions. **Disability discrimination** occurs when an employee or applicant who is covered by the **Americans with Disabilities Act (ADA)** is treated unfavorably due to their physical or mental disability. The ADA is a civil rights law that prohibits discrimination in employment, public services, public accommodations, and telecommunications against people with disabilities.[119] To be covered under the ADA, individuals must be able to perform the essential functions of their job with or without reasonable accommodations. Research has shown that reasonable accommodations are typically of no or low cost (less than $100) to employers.[120]

National Origin Discrimination

National origin discrimination involves treating someone unfavorably because of their country of origin, accent, ethnicity, or appearance. EEOC regulations make it illegal to implement an employment practice or policy that applies to everyone if it has a negative impact on people of a certain national origin. For example, employers cannot institute an "English-only" language policy unless speaking English at all times is essential to ensure the safe and efficient operation of the business. Employers also cannot mandate employees be fluent in English unless fluency in English is essential to satisfactory job performance. The EEOC also prohibits businesses from hiring only U.S. citizens or lawful residents unless the business is required by law to do so.[121]

Pregnancy Discrimination

Pregnancy discrimination involves treating an employee or applicant unfairly because of pregnancy status, childbirth, or medical conditions related to pregnancy or childbirth. The **Pregnancy Discrimination Act (PDA)** prohibits any discrimination as it relates to pregnancy in any of the following areas: hiring, firing, compensation, training, job assignment, insurance, or any other employment conditions. Further, certain conditions that result from pregnancy may be protected under the ADA, which means employers may need to make reasonable accommodations for any employee with disabilities related to pregnancy.

Under the **Family and Medical Leave Act (FMLA)**, new parents, including adoptive and foster parents, may be

eligible for 12 weeks of unpaid leave (or paid leave only if earned by the employee) to care for the new child. Also, nursing mothers have the right to express milk on workplace premises.[122]

Race/Color Discrimination

Race/color discrimination involves treating employees or applicants unfairly because of their race or because of physical characteristics typically associated with race such as skin color, hair color, hair texture, or certain facial features.

As with national origin discrimination, certain workplace policies that apply to all employees may be unlawful if they unfairly disadvantage employees of a certain race. Policies that specify that certain hairstyles must or must not be worn, for example, may unfairly impact African American employees, and such policies are prohibited unless their enforcement is necessary to the operations of the business.[123]

Religious Discrimination

Religious discrimination occurs when employees or applicants are treated unfairly because of their religious beliefs. The laws protect those who belong to traditional organized religions and those who do not belong to organized religions but hold strong religious, ethical, or moral beliefs of some kind. Employers must make reasonable accommodations for employees' religious beliefs, which may include flexible scheduling or modifications to workplace practices. Employees are also permitted accommodation when it comes to religious dress and grooming practices, unless such accommodations will place an undue burden on the employer. Employees are also protected from having to participate (or not participate) in certain religious practices as terms of their employment.[124]

Sex-Based Discrimination

Sex-based discrimination occurs when employees or applicants are treated unfairly because of their sex. This form of discrimination includes unfair treatment due to gender, transgender status, and sexual orientation. Harassment and policies that unfairly impact certain groups protected under sex discrimination laws are prohibited under EEOC legislation.[125]

The key diversity-related federal laws are summarized in **Table 12.2**.

Key Diversity Related Legislation	
Title VII of the Civil Rights Act of 1964	Created the Equal Employment Opportunity Commission with the primary role of making it illegal to discriminate against someone in the workplace due to their race, national origin, sex, disability, religion, or pregnancy status.
Equal Pay Act of 1963	Mandates that men and women must be given the same pay for equal work
Age Discrimination in Employment Act (ADEA)	Forbids discrimination against individuals who are age 40 and above.
Americans with Disabilities Act (ADA)	Prohibits discrimination against people with disabilities in employment, public services, public accommodations, and in telecommunications

Table 12.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Key Diversity Related Legislation	
Pregnancy Discrimination Act (PDA)	Prohibits any discrimination as it relates to pregnancy, including hiring, firing, compensation, training, job assignment, insurance, or any other employment conditions.
Family and Medical Leave Act (FMLA)	Grants new parents up to 12 weeks of paid or unpaid leave to care for the new child, and gives nursing mothers the right to express milk on workplace premises.

Table 12.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Other Types of Discrimination

Beyond the key types of discrimination outlined by the EEOC, diversity and management scholars have identified other types of discrimination that frequently impact certain identity groups more than others. **Access discrimination** is a catchall term that describes when people are denied employment opportunities because of their identity group or personal characteristics such as gender, race, age, or other factors. **Treatment discrimination** describes a situation in which people are employed but are treated differently while employed, mainly by receiving different and unequal job-related opportunities or rewards.[126] Scholars have also identified a form of discrimination called **interpersonal** or **covert discrimination** that involves discrimination that manifests itself in ways that are not visible or readily identifiable, yet is serious because it can impact interpersonal interactions between employees, employees and customers, and other important workplace relationships.

This type of discrimination poses unique challenges because it is difficult to identify. For example, one study examining customer service and discrimination found that obese customers were more likely to experience interpersonal discrimination than average-weight customers. Salespersons spent less time interacting with obese customers than average-weight customers, and average-weight customers reported more positive interactions with salespeople when asked about standard customer service metrics such as being smiled at, receiving eye contact, and perceived friendliness.[127]

CONCEPT CHECK

1. What is the role of the EEOC?
2. What are the types of discrimination encountered in the workplace?

12.5 Key Diversity Theories

5. What key theories help managers understand the benefits and challenges of managing the diverse workforce?

Many theories relevant to managing the diverse workforce center on an individual's reactions (such as categorization and assessment of the characteristics of others) to people who are different from the individual. Competing viewpoints attempt to explain how diversity is either harmful or beneficial to organizational outcomes.

- The **cognitive diversity hypothesis** suggests that multiple perspectives stemming from the cultural differences between group or organizational members result in creative problem solving and innovation.

- The **similarity-attraction paradigm** and **social identity theory** hold that individuals' preferences for interacting with others like themselves can result in diversity having a negative effect on group and organizational outcomes.
- The **justification-suppression model** explains under what conditions individuals act on their prejudices.

Cognitive Diversity Hypothesis

Some research shows that diversity has no relationship to group performance, and some shows that there is a relationship. Of the latter research, some shows a negative relationship (greater diversity means poorer group performance, less diversity means better group performance) and some shows a positive relationship.

These various findings may be due to the difference in how diversity can affect group members. **Cognitive diversity** refers to differences between team members in characteristics such as expertise, experiences, and perspectives.[128] Many researchers contend that physical diversity characteristics such as race, age, or sex (also known as bio-demographic diversity) positively influence performance because team members contribute unique cognitive attributes based on their experiences stemming from their demographic background.[129]

There is research that supports the relationship between group performance and task-related diversity as reflected in characteristics not readily detectable such as ability, occupational expertise, or education. However, the relationship between bio-demographic diversity and group performance has produced mixed results.[130] For example, Watson and colleagues studied the comparison of group performance between culturally homogeneous and culturally heterogeneous groups. Groups were assigned business cases to analyze, and their group performance was measured over time based on four factors: the range of perspectives generated, the number of problems identified in the case, the number of alternatives produced, and the quality of the solution. Overall performance was also calculated as the average of all the factors. The factors were measured at four intervals: Interval 1 (at 5 weeks), Interval 2 (at 9 weeks), Interval 3 (at 13 weeks), and Interval 4 (at 17 weeks).

For Intervals 1 and 2, the overall performance of homogeneous groups was higher than heterogeneous groups. However, by Intervals 3 and 4, there were no significant differences in overall performance between the groups, but the heterogeneous group outperformed the homogeneous group in generating a greater range of perspectives and producing a greater number of alternatives.

This research suggests that although homogeneous groups may initially outperform culturally diverse groups, over time diverse groups benefit from a wider range of ideas to choose from when solving a problem. Based on the cognitive diversity hypothesis, these benefits stem from the multiple perspectives generated by the cultural diversity of group members. On the other hand, it takes time for members of diverse groups to work together effectively due to their unfamiliarity with one another, which explains why homogeneous groups outperform heterogeneous groups in the early stages of group functioning. (This is related to the similarity-attraction paradigm, discussed in the next section.) Other studies have shown that ethnically diverse groups cooperate better than homogeneous groups at tasks that require decision-making and are more creative and innovative. While homogeneous groups may be more efficient, heterogeneous groups sacrifice efficiency for effectiveness in other areas.

Similarity-Attraction Paradigm

The cognitive diversity hypothesis explains how diversity benefits organizational outcomes. The similarity-attraction paradigm explains how diversity can have negative outcomes for an organization.

Some research has shown that members who belong to diverse work units may become less attached, are absent from work more often, and are more likely to quit.[131] There is also evidence that diversity may produce conflict and higher employee turnover. Similarity-attraction theory is one of the foundational theories that attempts to explain why this occurs; it posits that individuals are attracted to others with whom they share attitude similarity.[132]

Attitudes and beliefs are common antecedents to interpersonal attraction. However, other traits such as race, age, sex, and socioeconomic status can serve as signals to reveal deep-level traits about ourselves. For example, numerous studies investigating job-seeker behaviors have shown that individuals are more attracted to companies whose recruitment literature includes statements and images that reflect their own identity group. One study showed that companies perceived to value diversity based on their recruitment literature are more attractive to racial minorities and women compared to White people.[133] Another study showed that when organizations use recruitment materials that target sexual minorities, the attraction of study participants weakened among heterosexuals.[134] Even foreign-born potential job candidates are more attracted to organizations that depict international employees in their job ads.[135]

Social Cognitive Theory

Social cognitive theory is another theory that seeks to explain how diversity can result in negative outcomes in a group or organization. Social cognitive theory suggests that people use categorization to simplify and cope with large amounts of information. These categories allow us to quickly and easily compartmentalize data, and people are often categorized by their visible characteristics, such as race, sex, and age. Thus, when someone sees a person of a particular race, automatic processing occurs and beliefs about this particular race are activated. Even when the person is not visible, they can be subject to this automatic categorization. For example, when sorting through resumes a hiring manager might engage in gender categorization because the person's name provides information about the person's gender or racial categorization because the person's name provides information about their race.[136] **Stereotypes** are related to this categorization, and refer to the overgeneralization of characteristics about large groups. Stereotypes are the basis for prejudice and discrimination. In a job-related context, using categorization and stereotyping in employment decision-making is often illegal. Whether illegal or not, this approach is inconsistent with a valuing-diversity approach.

Social Identity Theory

Social identity theory is another explanation of why diversity may be perceived as a negative outcome. Social identity theory suggests that when we first come into contact with others, we categorize them as belonging to an in-group (i.e., the same group as us) or an out-group (not belonging to our group).[137] We tend to see members of our in-group as heterogeneous but out-group members as homogeneous. That is, we perceive out-group members as having similar attitudes, behaviors, and characteristics (i.e., fitting stereotypes).

Researchers posit that this perspective may occur because of the breadth of interactions we have with people from our in-group as opposed to out-groups. There is often strong in-group favoritism and, sometimes, derogation of out-group members. In some cases, however, minority group members do not favor members of their own group.[138] This may happen because of being continually exposed to widespread beliefs about the positive attributes of White people or men and to common negative beliefs about some minorities and women. When in-group favoritism does occur, majority-group members will be hired, promoted, and rewarded at the expense of minority-group members, often in violation of various laws.

Schema Theory

Schema theory explains how individuals encode information about others based on their demographic characteristics.[139] Units of information and knowledge experienced by individuals are stored as having patterns and interrelationships, thus creating schemas that can be used to evaluate one's self or others. As a result of the prior perceived knowledge or beliefs embodied in such schemas, individuals categorize people, events, and objects. They then use these categories to evaluate newly encountered people and make decisions regarding their interaction with them.

Based on schema theory, employees develop schemas about coworkers based on race, gender, and other diversity traits. They also form schemas about organizational policies, leadership, and work climates. Schemas formed can be positive or negative and will affect the attitudes and behaviors employees have toward one another.

Justification-Suppression Model

The **justification-suppression model** explains the circumstances in which prejudiced people might act on their prejudices. The process by which people experience their prejudice is characterized as a "two-step" process in which people are prejudiced against a certain group or individual but experience conflicting emotions in regard to that prejudice and are motivated to suppress their prejudice rather than act upon it.[140] Theory about prejudice suggests that all people have prejudices of some sort, that they learn their prejudices from an early age, and that they have a hard time departing from them as they grow older. Prejudices are often reinforced by intimate others, and individuals use different methods to justify those prejudices.

Most people will attempt to suppress any outward manifestations of their prejudices. This suppression can come from internal factors like empathy, compassion, or personal beliefs regarding proper treatment of others. Suppression can also come from societal pressures; overt displays of prejudice are no longer socially acceptable, and in some cases are illegal.

At times, however, prejudiced individuals will look for reasons to justify acting on their prejudiced beliefs. Research has shown people are more likely to act in prejudiced ways when they are physically or emotionally tired, when they can do so and remain anonymous, or when social norms are weak enough that their prejudiced behavior will not be received negatively.

CONCEPT CHECK

1. What are the theories that can help managers understand diversity?

12.6 Benefits and Challenges of Workplace Diversity

6. How can managers reap benefits from diversity and mitigate its challenges?

Much theoretical work has espoused the benefits of workplace diversity, but empirical studies have often had conflicting results, which have shown researchers that certain conditions can affect how successful initiatives to increase and enhance workplace diversity are. Managers can work to make sure that the efforts and initiatives they enact to increase diversity in the workplace come from a perspective that ensures and strives for equity and fairness, and not simply from the perspective of only benefitting the company's bottom line. By approaching diversity and diversity issues in a thoughtful, purposeful way, managers can mitigate the challenges posed by a diverse workforce and enhance the benefits a diverse workforce can offer.

Three Perspectives on Workplace Diversity

Ely and Thomas's work on cultural diversity was designed to theoretically and empirically support some of the hypothesized relationships between diversity and workplace outcomes. Their research yielded a paradigm that identifies three perspectives regarding workplace diversity:[141] integration and learning, access and legitimacy, and discrimination and fairness.

The Integration-and-Learning Perspective

The **integration-and-learning perspective** posits that the different life experiences, skills, and perspectives that members of diverse cultural identity groups possess can be a valuable resource in the context of work groups. Under this perspective, the members of a culturally diverse workgroup can use their collective differences to think critically about work issues, strategies, products, and practices in a way that will allow the group to be successful in its business operations. The assumption under this perspective is that members of different cultural identity groups can learn from each other and work together to best achieve shared goals. This perspective values cultural identity and strongly links diversity of the group to the success of the firm.

Downfalls of the integration-and-learning perspective can be that White members of the work group can feel marginalized when they are not asked to join in on diversity-related projects or discussions. Similarly, workforce members of color might experience burnout if they are always expected to work on those projects and discussions that specifically deal with diversity issues.

The Access-and-Legitimacy Perspective

The **access-and-legitimacy perspective** focuses on the benefit that a diverse workforce can bring to a business that wishes to operate within a diverse set of markets or with culturally diverse clients. Work groups that operate under this perspective are doing so in order to gain access to diverse markets and because their diversity affords them some level of legitimacy when attempting to gain access to diverse markets. This type of workplace diversity is more of a functional type of diversity that does not attempt to integrate or value diversity at the business's core. The danger of this diversity perspective is that it can limit the roles of certain minority groups by valuing members of these groups only because they can increase the access to diverse markets and clients and not because they can make other potentially valuable contributions.[142]

The Discrimination-and-Fairness Perspective

The **discrimination-and-fairness perspective** stems from a belief that a culturally diverse workforce is a moral duty that must be maintained in order to create a just and fair society. This perspective is characterized by a commitment to equal opportunities in hiring and promotions, and does not directly link a work group's productivity or success with diversity. Many times firms operating under this perspective will have a spoken or unspoken assumption that assimilation into the dominant (White) culture should take place by the members of other cultural identity groups. One drawback of this perspective is that because it measures progress by the recruitment and retention of diverse people, employees of traditionally underrepresented groups can feel devalued. Often, assimilation is pushed on diverse employees under the guise of reducing conflict or in an effort to demonstrate that differences between cultural identity groups are unimportant.[143]

Exhibit 12.8 shows the degrees of effectiveness and benefits for each perspective.

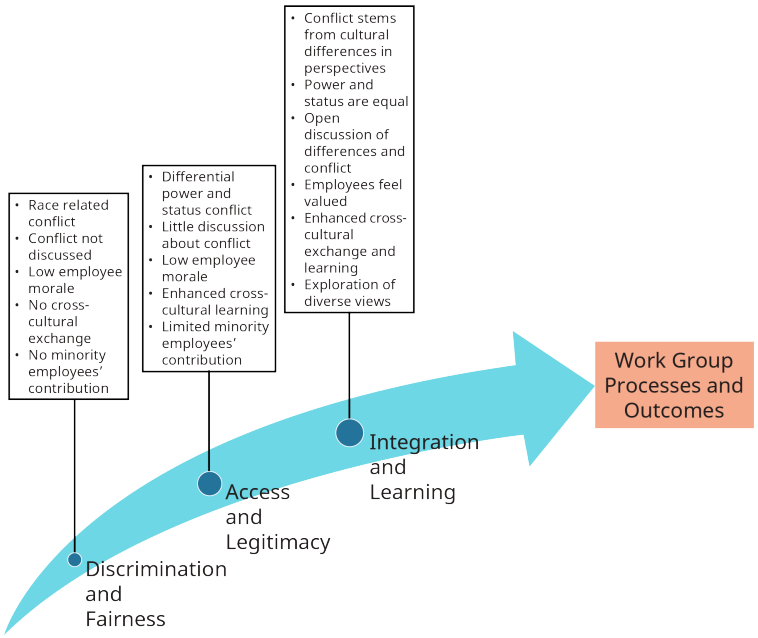


Exhibit 12.8 Cultural Diversity Perspectives at Work Source: Adapted from Ely, Robin J., and David A. Thomas. "Cultural diversity at work: The effects of diversity perspectives on work group processes and outcomes." Administrative science quarterly. 46.2 (2001): 229-273.

CONCEPT CHECK

1. How can managers reap the benefits of diversity?
2. How can managers mitigate the challenges of diversity?
3. What is the access-and-legitimacy perspective? Differentiate it from the discrimination-and-fairness perspective.

12.7 Recommendations for Managing Diversity

7. What can organizations do to ensure applicants, employees, and customers from all backgrounds are valued?

Organizations that are committed to equality and inclusion must take steps to combat the examples of discrimination and harassment that have been covered in this chapter. And they must take steps to make diversity a goal in the pre-employment stages as well as in the post-employment stages. Anyone with managerial or supervisory responsibilities should pay careful attention to hiring and performance-rewarding practices, and make sure to rely on relevant information for making decisions and ignore race-based stereotypes. The following are examples of what leaders and organizations can do make sure employees feel valued.

Interview Selection Process

To ensure fairness for all applicants, organizations should use **highly structured interviews** during the selection process to avoid bias based on race or gender.[144] Highly structured interviews consists of the following 15 characteristics: "(1) job analysis, (2) same questions, (3) limited prompting, (4) better questions, (5) longer interviews, (6) control of ancillary information, (7) limited questions from candidates, (8) multiple rating scales, (9) anchored rating scales, (10) detailed notes, (11) multiple interviewers, (12) consistent interviewers, (13) no discussion between interviews, (14) training, and (15) statistical prediction."[145] Similarity bias can occur when interviewers prefer interviewees with whom they share similar traits. Organizations can mitigate this challenge if all 15 characteristics of a structured interview are used consistently with each job applicant.

Diversified Mentoring Relationships

Thanks to the rapid growth of international travel and globalization, managers are often called upon to manage a workforce that is increasingly diverse. Research has shown that racially and ethnically diverse firms have better financial performance than more homogeneous firms, because, as mentioned, employees from different backgrounds and with different experiences can give the firm a competitive advantage in various ways. It is necessary, however, that managers and those in positions of power are adequately equipped to manage diverse workforces in ways that are beneficial to all. **Diversified mentoring relationships** are relationships in which the mentor and the mentee differ in terms of their status within the company and within larger society. The differences could be in terms of race, gender, class, disability, sexual orientation, or other status. Research has found that these types of relationships are mutually beneficial and that the mentor and the mentee both have positive outcomes in terms of knowledge, empathy, and skills related to interactions with people from different power groups.[146]

MANAGERIAL LEADERSHIP



Diversity Training Programs

As the workforce becomes increasingly more diverse, managers will face a major challenge in understanding how to manage diversity. One of many decisions to be made is whether an organization should offer diversity training and, if so, what topics and issues should be addressed based on the organizational goals.

There has been a debate over the effectiveness of corporate diversity training since the Civil Rights Act of 1964 helped prompt corporate diversity training with the organizational goal of simply being compliant with the law. Prior research shows that it can be effective, ineffective, or even detrimental for employees, but as diversity training has evolved through the years, it has become an important factor in helping employers manage diversity.

In the 1980s through the late 1990s, diversity training evolved from focusing solely on compliance to addressing the needs of women and minorities as they entered the workforce at a faster rate. Unfortunately, this type of training was perceived by White people and men as singling them out as the problem; sometimes such training was even formatted as "confession" sessions for White employees to express their complicity in institutional racism. Not unexpectedly, this type of training would often backfire and would further separate employees from each other, the exact opposite of its intention.

Recently, diversity training has evolved to focus on (1) building cultural competencies regarding fellow employees, (2) valuing differences, and (3) learning how diversity helps make better business decisions. This perspective toward diversity training is more effective than simply focusing on causes of a lack of diversity and the historical roots of discrimination. Understanding how to comply with the law is still important, but training has a greater effect when the other factors are also included.

A recent study investigated various diversity-training methods, including having participants engage in activities on perspective taking and goal setting. For perspective-taking activities, participants were asked to write a few sentences about the challenges they believed minority group members might experience. Goal-setting activities involved writing specific and measurable goals related to workplace diversity such as crafting future policies or engaging in future behaviors. Researchers found that when these activities were used as a diversity-training method, pro-diversity attitudes and behavioral intentions persisted months later.

Issues regarding employee sexual orientation have also been introduced into corporate diversity training in recent years. Because employees' religious beliefs are protected by Title VII of the Civil Rights Act, employers should be sensitive to balancing the rights of lesbian, gay, bisexual, and transgender employees and employees' religious rights. Attempting to protect the rights of one group and not be perceived to disrespect another is a difficult situation for managers. In order to mitigate any backlash from some employees, employers should seek feedback from all groups to learn the best ways to accommodate them, and should assess the organizational climate. Additionally, managers should explain how diversity based on sexual orientation aligns with the company's strategic objectives and explain the company's legal position with supportive reasoning. Lastly, based on their organizational climate and how it reshapes itself over time, some companies may wish to address diversity training on sexual orientation, gender identity, and gender expression in training separate from other diversity issues.

Sources: Young, Cheri A., Badiah Haffejee, and David L. Corsun. "Developing Cultural Intelligence and Empathy Through Diversified Mentoring Relationships." *Journal of Management Education* (2017): 1052562917710687; Bezrukova, K., Jehn, K.A., & Spell, C.S. (2012). Reviewing diversity training: Where we

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Discussion Questions

1. Why do you believe diversity training is resisted by some employees?
2. Do you believe there will always be a need for workplace diversity training?
3. How would you determine what types of diversity training are needed at your company?

Visible Leadership

Another key to ensure that employees are treated fairly is utilizing appropriate leadership strategies.[147] Leadership must sincerely value variety of opinions, and organizational culture must encourage openness and make workers feel valued. Organizations must also have a well-articulated and widely understood mission and a relatively egalitarian, nonbureaucratic structure. Having such a work environment will ensure that the attitudes and values of employees are aligned with those of the organization. In this way culture serves as a control mechanism for shaping behaviors.

Strategies for Employees

Individuals can increase positive employment outcomes by obtaining high levels of education, because for all groups education is a predictor of employment and increased earnings. Individuals can also seek employment in larger firms, which are more likely to have formal hiring programs and specific diversity provisions in place. Individuals of any race or ethnic background can also take steps to eliminate discrimination by being aware of their own personal stereotypes or biases and taking steps to challenge and address them.

CONCEPT CHECK



1. How can managers ensure fairness in the interviewing and selection process regarding diversity?
2. What is the role of leadership regarding diversity?

Key Terms

access discrimination A catchall term that describes when people are denied employment opportunities because of their identity group or personal characteristics such as gender, race, or age.

access-and-legitimacy perspective Focuses on the benefits that a diverse workforce can bring to a business that wishes to operate within a diverse set of markets or with culturally diverse clients.

age discrimination Treating an employee or applicant less favorably due to their age.

Age Discrimination in Employment Act (ADEA) Forbids discrimination against individuals who are age 40 and above, including offensive or derogatory remarks that create a hostile work environment.

Americans with Disabilities Act (ADA) Prohibits discrimination in employment, public services, public accommodations, and telecommunications against people with disabilities.

cognitive diversity Differences between team members regarding characteristics such as expertise, experiences, and perspectives.

cognitive diversity hypothesis Multiple perspectives stemming from the cultural differences between group or organizational members result in creative problem-solving and innovation.

covert discrimination (interpersonal) An interpersonal form of discrimination that manifests in ways that are not visible or readily identifiable.

deep-level diversity Diversity in characteristics that are nonobservable such as attitudes, values, and beliefs, such as religion.

disability discrimination Occurs when an employee or applicant is treated unfavorably due to their physical or mental disability.

discrimination-and-fairness perspective A culturally diverse workforce is a moral duty that must be maintained in order to create a just and fair society.

diversified mentoring relationships Relationships in which the mentor and the mentee differ in terms of their status within the company and within larger society.

diversity Identity-based differences among and between people that affect their lives as applicants, employees, and customers.

Equal Employment Opportunity Commission An organization that enforces laws and issues guidelines for employment-related treatment according to Title VII of the Civil Rights Act of 1964.

Equal Pay Act of 1963 An amendment to the Fair Labor Standards Act of 1938.

Family and Medical Leave Act (FMLA) Provides new parents, including adoptive and foster parents, with 12 weeks of unpaid leave (or paid leave only if earned by the employee) to care for the new child and requires that nursing mothers have the right to express milk on workplace premises.

glass ceiling An invisible barrier based on the prejudicial beliefs of organizational decision makers that prevents women from moving beyond certain levels within a company.

groupthink A dysfunction in decision-making that is common in homogeneous groups due to group pressures and group members' desire for conformity and consensus.

harassment Any unwelcome conduct that is based on characteristics such as age, race, national origin, disability, gender, or pregnancy status.

hidden diversity Differences in traits that are deep-level and may be concealed or revealed at discretion by individuals who possess them.

highly structured interviews Interviews that are be structured objectively to remove bias from the selection process.

identity group A collective of individuals who share the same demographic characteristics such as race, sex, or age.

inclusion The degree to which employees are accepted and treated fairly by their organization.

integration-and-learning perspective Posits that the different life experiences, skills, and perspectives that members of diverse cultural identity groups possess can be a valuable resource in the context of work groups.

invisible social identities Membership in an identity group based on hidden diversity traits such as sexual

orientation or a nonobservable disability that may be concealed or revealed.

justification-suppression model Explains the circumstances in which prejudiced people might act on their prejudices.

justification-suppression model Explains under what conditions individuals act on their prejudices.

managing diversity Ways in which organizations seek to ensure that members of diverse groups are valued and treated fairly within organizations.

model minority myth A stereotype that portrays Asian men and women as obedient and successful and is often used to justify socioeconomic disparities between other racial minority groups.

national origin discrimination Treating someone unfavorably because of their country of origin, accent, ethnicity, or appearance.

passing The decision to not disclose one's invisible social identity.

pregnancy discrimination Treating an employee or applicant unfairly because of pregnancy status, childbirth, or medical conditions related to pregnancy or childbirth.

Pregnancy Discrimination Act (PDA) Prohibits any discrimination as it relates to pregnancy in hiring, firing, compensation, training, job assignment, insurance, or any other employment conditions.

race/color discrimination Treating employees or applicants unfairly because of their race or because of physical characteristics typically associated with race such as skin color, hair color, hair texture, or certain facial features.

religious discrimination When employees or applicants are treated unfairly because of their religious beliefs.

resource-based view Demonstrates how a diverse workforce can create a sustainable competitive advantage for organizations.

revealing The decision to disclose one's invisible social identity.

reverse discrimination Describes a situation in which dominant group members perceive that they are experiencing discrimination based on their race or sex.

schema theory Explains how individuals encode information about others based on their demographic characteristics.

sex-based discrimination When employees or applicants are treated unfairly because of their sex, including unfair treatment due to gender, transgender status, or sexual orientation.

sexual harassment Harassment based on a person's sex; it can (but does not have to) include unwanted sexual advances, requests for sexual favors, or physical and verbal acts of a sexual nature.

similarity-attraction paradigm Individuals' preferences for interacting with others like themselves can result in diversity having a negative effect on group and organizational outcomes.

social identity theory Self-concept based on an individual's physical, social, and mental characteristics.

stereotypes Overgeneralization of characteristics about groups that are the basis for prejudice and discrimination.

strategic human resources management (SHRM) System of activities arranged to engage employees in a manner that assists the organization in achieving a sustainable competitive advantage.

surface-level diversity Diversity in the form of characteristics of individuals that are readily visible, including, but not limited to, age, body size, visible disabilities, race, or sex.

treatment discrimination A situation in which people are employed but are treated differently while employed, mainly by receiving different and unequal job-related opportunities or rewards.

work visa A temporary documented status that authorizes individuals from other countries to permanently or temporarily live and work in the United States.

workplace discrimination Unfair treatment in the job hiring process or at work that is based on the identity group, physical or mental condition, or personal characteristic of an applicant or employee.

Summary of Learning Outcomes

12.1 An Introduction to Workplace Diversity

1. What is diversity?

Diversity refers to identity-based differences among and between people that affect their lives as applicants, employees, and customers. Surface-level diversity represents characteristics of individuals that are readily visible, including, but not limited to, age, body size, visible disabilities, race, or sex. Deep-level diversity includes traits that are nonobservable such as attitudes, values, and beliefs. Finally, hidden diversity includes traits that are deep-level but may be concealed or revealed at the discretion of individuals who possess them.

12.2 Diversity and the Workforce

2. How diverse is the workforce?

In analyzing the diversity of the workforce, several measures can be used. Demographic measures such as gender and race can be used to measure group sizes. Measures of such things as discrimination toward specific groups can be analyzed to gauge the diversity of the workforce. Other measures of diversity in the workforce can include examination of differences in age and sexual orientation.

12.3 Diversity and Its Impact on Companies

3. How does diversity impact companies and the workforce?

The demography of the labor force is changing in many ways as it becomes racially diverse and older and includes more women and individuals with disabilities. Diversity affects how organizations understand that employing people who hold multiple perspectives increases the need to mitigate conflict between workers from different identity groups, enhances creativity and problem solving in teams, and serves as a resource to create a competitive advantage for the organization.

12.4 Challenges of Diversity

4. What is workplace discrimination, and how does it affect different social identity groups?

Workplace discrimination occurs when an employee or an applicant is treated unfairly at work or in the job-hiring process due to an identity group, condition, or personal characteristic such as age, race, national origin, sex, disability, religion, or pregnancy status. The Equal Employment Opportunity Commission enforces laws and legislation related to individuals with those protected statuses.

Harassment is any unwelcome conduct that is based on the protected characteristics listed above. Sexual harassment refers specifically to harassment based on a person's sex, and it can (but does not have to) include unwanted sexual advances, requests for sexual favors, or physical and verbal acts of a sexual nature.

12.5 Key Diversity Theories

5. What key theories help managers understand the benefits and challenges of managing the diverse workforce?

The cognitive-diversity hypothesis suggests that multiple perspectives stemming from the cultural differences between groups or organizational members result in creative problem solving and innovation. The similarity-attraction paradigm and social identity theory explain how, because individuals prefer to interact with others like themselves, diversity may have a negative effect on group and organizational outcomes. The justification-suppression model explains under what conditions individuals act on their prejudice.

12.6 Benefits and Challenges of Workplace Diversity

6. How can managers reap benefits from diversity and mitigate its challenges?

By approaching diversity and diversity issues in a thoughtful, purposeful way, managers can mitigate the challenges posed by a diverse workforce and enhance the benefits a diverse workforce can offer.

Managers can work to make sure that the efforts and initiatives they enact to increase diversity in the workplace come from a perspective that ensures and strives for equity and fairness, not simply one that will benefit the company's bottom line.

Using an integration-and-learning perspective strongly links diversity to the work and success of the firm by viewing cultural identity, different life experiences, skills, and perspectives from members of diverse cultural identity groups as a valuable resource.

12.7 Recommendations for Managing Diversity

7. What can organizations do to ensure applicants, employees, and customers from all backgrounds are valued?

Organizations should use objective and fair recruitment and selection tools and policies.

Leadership should make employees feel valued, be open to varied perspectives, and encourage a culture of open dialogue. Women and racial minorities can increase positive employment outcomes by pursuing higher levels of education and seeking employment in larger organizations. All individuals should be willing to listen, empathize with others, and seek to better understand sensitive issues that affect different identity groups.

Chapter Review Questions

1. Define the three types of diversity and compare them using examples for each type.
2. How are demographics of the workforce changing?
3. What are some major challenges that women face in organizations?
4. What is the model minority myth? How does it compare to how Black people and Hispanic people are stereotyped?
5. What are some benefits of hiring older workers?
6. Why would an employee "pass" or "reveal" at work? What are the positive and negative consequences of doing so?
7. Explain the six benefits of workplace diversity described by Cox and Blake's business case for diversity.
8. Compare how the cognitive diversity hypothesis and the similarity-attraction paradigm relate to diversity outcomes.
9. Based on the justification-suppression model, explain why individuals act on their prejudicial beliefs.
10. Describe challenges that managers must face when managing diversity.
11. How can employees ensure they are compliant with the laws and legislation enforced by the EEOC?
12. What are some recommendations for managing diversity?

Management Skills Application Exercises

1. Do you agree that diversity can be a source of greater benefit than harm to organizations? Why or why not?
2. Have you ever worked in a diverse team setting before? If so, did you encounter any attitudes or behaviors that could potentially cause conflict? If not, how would you manage conflict stemming from diversity?
3. List three organizational goals you would implement to create an organizational culture of diversity and inclusion.
4. Have you or has someone you know experienced discrimination? How did that affect you or that person emotionally, physically, or financially?
5. Pick an identity group (e.g., gay, Black, or woman) other than your own. Imagine and list the negative experiences and interactions you believe you might encounter at work. What policies or strategies could an organization implement to prevent those negative experiences from occurring?

6. Provide a concrete example of how different perspectives stemming from diversity can positively impact an organization or work group. You may use a real-life personal example or make one up.

Managerial Decision Exercises

1. As a manager for a hospital, you oversee a staff of marketing associates. Their job is to find doctors and persuade them to refer their patients to your hospital. Associates have a very flexible work schedule and manage their own time. They report to you weekly concerning their activities in the field. Trusting them is very important, and it is impossible to track and confirm all of their activities. Your assistant, Nancy, manages the support staff for the associates, works very closely with them, and often serves as your eyes and ears to keep you informed as to how well they are performing.

   One day, Nancy comes into your office crying and tells you that your top-performing associate, Susan, has for the past few weeks repeatedly asked her out to dinner and she has repeatedly refused. Susan is a lesbian and Nancy is not. Today, when she refused, Susan patted her on the bottom and said, "I know, you are just playing hard to get."

   After Nancy calms down, you tell her that you will fill out the paperwork to report a sexual harassment case. Nancy says that she does not want to report it because it would be too embarrassing if word of the incident got out. To impress upon you how strongly she feels, she tells you that she will consider resigning if you report the incident. Nancy is essential to the effective operation of your group, and you dread how difficult it would be to get things done without her assisting you.

   What do you do? Do you report the case, lose Nancy's trust, and jeopardize losing a high-performing employee? Or do you not report it, thereby protecting what Nancy believes to be her right to privacy?

2. Recently your company has begun to promote its diversity efforts, including same-sex (and heterosexual) partner benefits and a nonharassment policy that includes sexual orientation, among other things. Your department now has new posters on the walls with photos of employees who represent different aspects of diversity (e.g., Black, Hispanic, gay). One of your employees is upset about the diversity initiative and has begun posting religious scriptures condemning homosexuality on his cubicle in large type for everyone to see. When asked to remove them, your employee tells you that the posters promoting diversity offend some religious employees. What should you do?

3. You are a recently hired supervisor at a paper mill factory. During your second week on the job, you learn about a White employee who has been using a racial slur during lunch breaks when discussing some of her Black coworkers with others. You ask the person who reported it to you about the woman and learn that she is an older woman, around 67 years old, and has worked at the factory for more than 40 years. You talk to your boss about it, and he tells you that she means no harm by it, she is just from another era and that is just her personality. What would you do in this situation?

4. You are a nurse manager who oversees the triage for the emergency room, and today is a slow day with very few patients. During the downtime, one of your subordinates is talking with another coworker about her new boyfriend. You observe her showing her coworkers explicit images of him that he emailed her on her phone. Everyone is joking and laughing about the ordeal. Even though it appears no one is offended, should you address it? What would you say?

5. You work for a company that has primarily Black and Hispanic customers. Although you employ many racial minorities and women, you notice that all of your leaders are White men. This does not necessarily mean that your organization engages in discriminatory practices, but how would you know if your organization was managing diversity well? What information would you need to determine this, and how would you collect it?

6. Your company's founder believes that younger workers are more energetic and serve better in sales positions. Before posting a new job ad for your sales division, he recommends that you list an age

requirement of the position for applicants between ages 18 and 25. Is his recommendation a good one? Why or why not?

7. You work for a real estate broker who recently hired two gay realtors, Steven and Shauna, to be a part of the team. During a staff meeting, your boss mentions an article she read about gay clients feeling ostracized in the real estate market. She tells the new employees she hired them to help facilitate the home-buying process for gay buyers and sellers. She specifically instructs them to focus on recruiting gay clients, even telling them that they should pass along any straight customers to one of the straight realtors on the team. A few weeks later, Shauna reports that she has made her first sale to a straight couple that is expecting a baby. During the next staff meeting, your boss congratulates Shauna on her sale, but again reiterates that Shauna and Steven should pass along straight clients to another realtor so they can focus on recruiting gay clients. After the meeting, Shauna tells you that she thinks it is unfair that she should have to focus on gay clients and that she is thinking of filing a discrimination complaint with HR. Do you think that Shauna is correct in her assessment of the situation? Is there merit to your boss's desire to have the gay realtors focus on recruiting gay clients? What might be a better solution to help gay clients feel more comfortable in the home-buying and -selling process?



Critical Thinking Case

Uber Pays the Price

Nine years ago, Uber revolutionized the taxi industry and the way people commute. With the simple mission "to bring transportation—for everyone, everywhere," today Uber has reached a valuation of around $70 billion and claimed a market share high of almost 90% in 2015. However, in June 2017 Uber experienced a series of bad press regarding an alleged culture of sexual harassment, which is what most experts believe caused their market share to fall to 75%.

In February of 2017 a former software engineer, Susan Fowler, wrote a lengthy post on her website regarding her experience of being harassed by a manager who was not disciplined by human resources for his behavior. In her post, Fowler wrote that Uber's HR department and members of upper management told her that because it was the man's first offense, they would only give him a warning. During her meeting with HR about the incident, Fowler was also advised that she should transfer to another department within the organization. According to Fowler, she was ultimately left no choice but to transfer to another department, despite having specific expertise in the department in which she had originally been working.

As her time at the company went on, she began meeting other women who worked for the company who relayed their own stories of harassment. To her surprise, many of the women reported being harassed by the same person who had harassed her. As she noted in her blog, "It became obvious that both HR and management had been lying about this being his 'first offense.'" Fowler also reported a number of other instances that she identified as sexist and inappropriate within the organization and claims that she was disciplined severely for continuing to speak out. Fowler eventually left Uber after about two years of working for the company, noting that during her time at Uber the percentage of women working there had dropped to 6% of the workforce, down from 25% when she first started.

Following the fallout from Fowler's lengthy description of the workplace on her website, Uber's chief executive Travis Kalanick publicly condemned the behavior described by Fowler, calling it "abhorrent and against everything Uber stands for and believes in." But later in March, Uber board member Arianna Huffington claimed that she believed "sexual harassment was not a systemic problem at the company." Amid pressure from bad media attention and the company's falling market share, Uber made some changes after an independent investigation resulted in 215 complaints. As a result, 20 employees were fired for reasons ranging from sexual harassment to bullying to retaliation to discrimination, and Kalanick announced that he would hire a chief operating officer to help manage the company. In an effort to provide the leadership team with more diversity, two senior female executives were hired to fill the positions of chief brand officer and senior vice

president for leadership and strategy.

Critical Thinking Questions

1. Based on Cox's business case for diversity, what are some positive outcomes that may result in changes to Uber's leadership team?
2. Under what form of federal legislation was Fowler protected?
3. What strategies should have been put in place to help prevent sexual harassment incidents like this from happening in the first place?

Sources: Uber corporate Website, https://www.uber.com/newsroom/company-info/ (February, 2017); Marco della Cava, "Uber has lost market share to Lyft during crisis," *USA Today*, June 13, 2017, https://www.usatoday.com/story/tech/news/2017/06/13/uber-market-share-customer-image-hit-string-scandals/102795024/; Tracey Lien, "Uber fires 20 workers after harassment investigation," *Los Angeles Times*, Jun 6, 2017, http://www.latimes.com/business/la-fi-tn-uber-sexual-harassment-20170606-story.html; Susan Fowler, "Reflecting On One Very, Very Strange Year At Uber," February 19, 2017, https://www.susanjfowler.com/blog/2017/2/19/reflecting-on-one-very-strange-year-at-uber.



13

Leadership

Exhibit 13.1 (Credit: Tambako the Jaguar/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Introduction

Learning Outcomes

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. 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." [Not a very good pep talk!]

After his first season ends, Arroyo is discouraged. Ticket and concession sales are down, and some long-

time 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.

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.[1] 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,"[2] and the late USC Professor Warren Bennis states that many of our organizations are overmanaged and underled.[3]

13.1 The Nature of Leadership

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.[4] 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,[5] 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."[6]

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.[7] 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 13.2 Joe Madden at pitcher mound 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 Management and Organizational Behavior (http://openstax.org/books/organizational-behavior/pages/1-introduction), 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 position. Managers are generally appointed to their role. Even though 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.[8] Thus, leaders often emerge out of 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) as ways of securing the compliance of their employees. 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 who are 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 role 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.[9] 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?

13.2 The Leadership Process

2. 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.[10] 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 13.3**).[11] 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.[12]

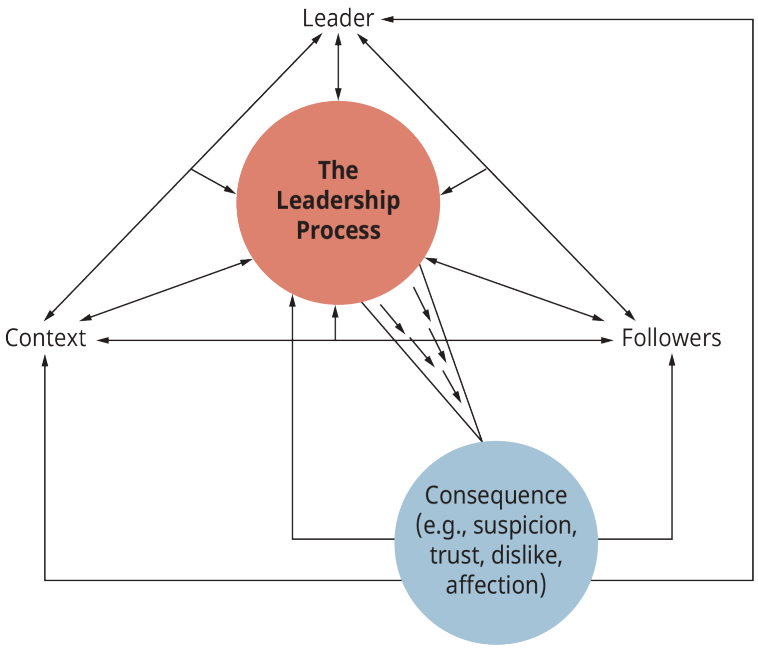

Exhibit 13.3 The Leadership Process (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The Leader

Leaders are people who take charge of or guide the activities of others. They are often seen as the focus or orchestrater of group activity, the people who set the tone of the group so that 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 13.4 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.[13] 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 styles of leadership than individuals with an external locus of control.[14] Individuals with an authoritarian personality are highly receptive to the effectiveness of directive acts of leadership.[15] It is the followers' expectations, as well as their performance-based needs, that determine what a leader must do in order 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.[16] The high-self-esteem follower tends to be responsive to participative styles of leadership. Low-self-esteem individuals, who doubt their competence and worthiness and their 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.[17]

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.[18]

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 multidimensional. 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 on 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, and 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.[19] 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

A number of 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 a number of 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 come to be key players, and high-quality exchange relationships tend to be associated with higher levels of performance, commitment, and satisfaction than are low-quality exchange relationships.[20] Attitudinal similarity and extroversion appear to be associated with a high-quality leader-member relationship.[21]

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

Start-ups, 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 cofounders 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 ultimate look, feel, and direction of the website. Ideals about shared leadership, where the company was going, and how it was going to 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 cofounders 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 single trait will guarantee that a person can lead a start-up from idea to greatness, but a survey of successful entrepreneurs does show 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" (Casserly 2013 n.p.). A start-up 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 (Casserly 2013). Peter Shankman, an entrepreneur and angel investor, says leaders have to be willing to make the hard decisions, even risking being the bad guy (Casserly 2013).

Gary Vaynerchuk credits his success to six factors. 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 have respect for and believe in other people, and have a strong work ethic, what 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.

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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?

CONCEPT CHECK

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

13.3 Leader Emergence

3. 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 members of the team 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.[22]

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*."[23] 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 (like 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 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.[24] 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 thus leadership flow to those individuals who have the ability to 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.[25] People surrender their power to individuals whom they believe will make meaningful contributions to attaining group goals.[26] 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 direction that the group takes as it works to achieve its goals.[27]

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 for attaining 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 they can bestow rewards or outcomes, such as money or recognition that others desire
- *Coercive power*—the power a person has because people believe that the person 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 the person 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 the person 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 the person 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).[28]

Not all forms of power are equally effective (see **Exhibit 13.5**), 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.[29]

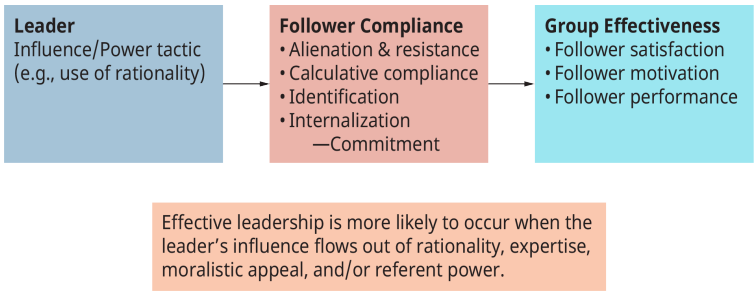


Exhibit 13.5 The Leader-Follower Power Relationship

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.[30]

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, while 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.[31]

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.[32] 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."[33] These tools help the leader influence the attitudes, motivation, and behavior of their followers.

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. Individuals attracted to high-involvement organizations, however, 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 created a continuum (see **Exhibit 13.6**) along which leadership styles range from authoritarian to extremely high levels of worker freedom.[34] 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).[35]

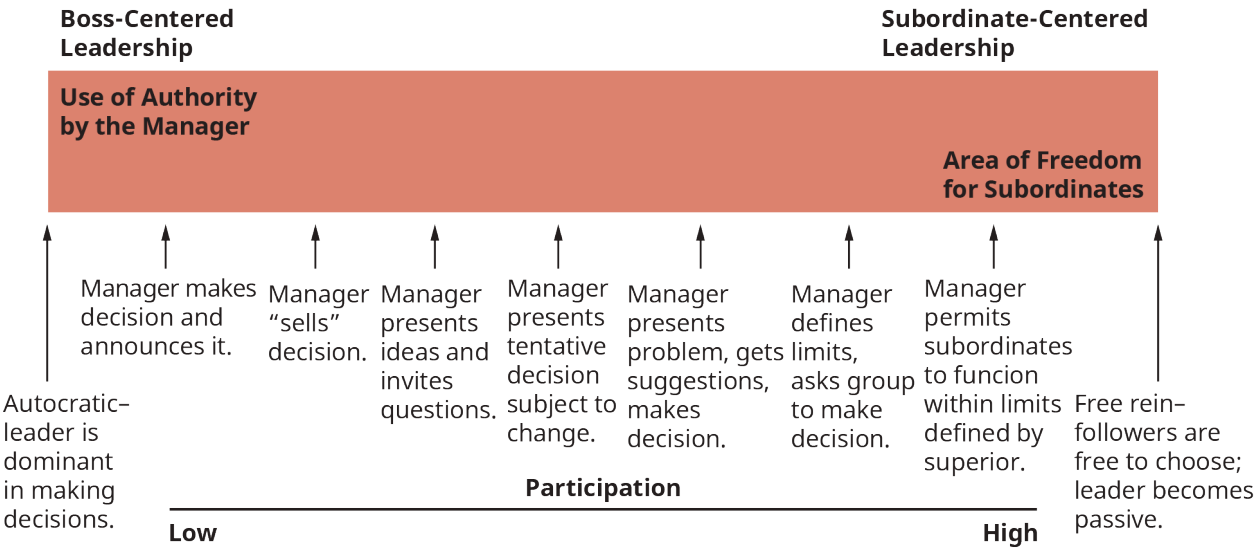


Exhibit 13.6 Tannenbaum and Schmidt's Leadership Continuum *Source:* Modified from R. Tannenbaum and W. H. Schmidt. May—June 1971. How to choose a leadership pattern. *Harvard Business Review*, 167.

Theory X and Theory Y Leaders

McGregor's Theory X and Theory Y posits two different sets of attitudes about the individual as an organizational member.[36] 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. As a consequence, they exert a highly controlling leadership style. In contrast, *Theory Y leaders* believe that people have creative capacities, as well as both the ability and desire to exercise self-direction and self-control. They typically allow organizational members significant amounts of 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.[37] Even though managers might publicly endorse the merits of participatory management, most of them doubted their workers' capacities to exercise self-direction and self-control and to contribute creatively.[38]

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 13.7**) that revolve around decision-making and implementation processes.[39]

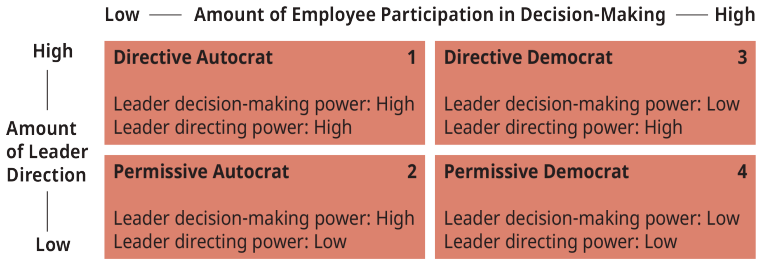


Exhibit 13.7 Leadership Behavior and the Uses of Power ***Source:*** Modified from J. P. Muczyk and B. C. Reimann. 1987. The case for directive leadership. *Academy of Management Executive*, 1:304.

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, when tasks are routine, or when 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 the execution of their roles. This style is appropriate when followers have valuable opinions and ideas, but one person needs to coordinate the execution of the ideas. 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 performance of work.

The permissive democratic approach to leadership is characteristic of leadership in high-involvement organizations. Here, leaders act as facilitators, process consultants, network builders, conflict managers, inspirationalists, coaches, teachers/mentors, and cheerleaders.[40] 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 13.8 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 has now 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?

13.4 The Trait Approach to Leadership

4. 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.[41] Out of such stories there 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."[42]

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, while on the faculty at The Ohio State University, pioneered our modern (late 20th century) study of leadership.[43] 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.[44]

The last three decades of the 20th century witnessed continued exploration of the relationship between traits and both leader emergence and leader 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 that are different from those of other people.[45] 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. Among 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 (nondeceit), 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[46]

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.[47] According to Locke, people endowed with these traits engage in behaviors that are 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 adds the important observation that personality tends to get expressed through an individual's behavior in "weak" situations and to be suppressed in "strong" situations.[48] A strong situation is one with 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 leader 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, about 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.[49] 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.[50] 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.[51] 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.[52] In our society males are frequently socialized to possess the masculine characteristics, while females are more frequently socialized to possess the 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.[53]

With regard to 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, when it comes to interpersonal versus task orientation, differences between men and women appear to be marginal. Women are somewhat more concerned with meeting the group’s interpersonal needs, while 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, while women are more likely to adopt a more democratic/participative leadership style.[54] 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.[55]

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 an air of 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, to contribute more to group activities, and to be able to function more effectively in their leadership role.[56] 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.[57]

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 either lack motivation or lack 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.[58]

CONCEPT CHECK

1. What are the trait perspectives on leadership?

13.5 Behavioral Approaches to Leadership

5. 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 a 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.[59] 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."[60] Jonathan Anthony calls himself an intrapreneur and corporate disorganizer, because same-old, same-old comms practices are dying in front of our eyes.[61] Apple founder Steve Jobs believed that the best leaders are coaches and team cheerleaders. Similar views have been frequently echoed by management consultant Tom Peters.

During the late 1940s, two major research programs—The Ohio State University and the University of Michigan leadership studies—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 is to be done (and how and when to do it), providing direction to organizational members, planning, coordinating, problem-solving, maintaining standards of performance, and encouraging the use of uniform procedures.

After consideration and initiating structure behaviors were first identified, many leaders believed that they had to behave one way or the other. If they initiated structure, they could not be considerate, and vice versa. It did not take long, however, 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 not consistent from situation to situation.[62] 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 that 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.[63]

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 that identify 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.[64]

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

that ensure these critical behaviors are present.[65]

The Leadership Grid®

Much of the credit for disseminating knowledge about important leader behaviors must go to Robert R. Blake and Jane S. Mouton, who developed a method for classifying styles of leadership compatible with many of the ideas from the Ohio State and Michigan studies.[66] 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 13.9**, the Leadership Grid® demonstrates that any combination of these two leader concerns is possible, and five styles of leadership are highlighted here.

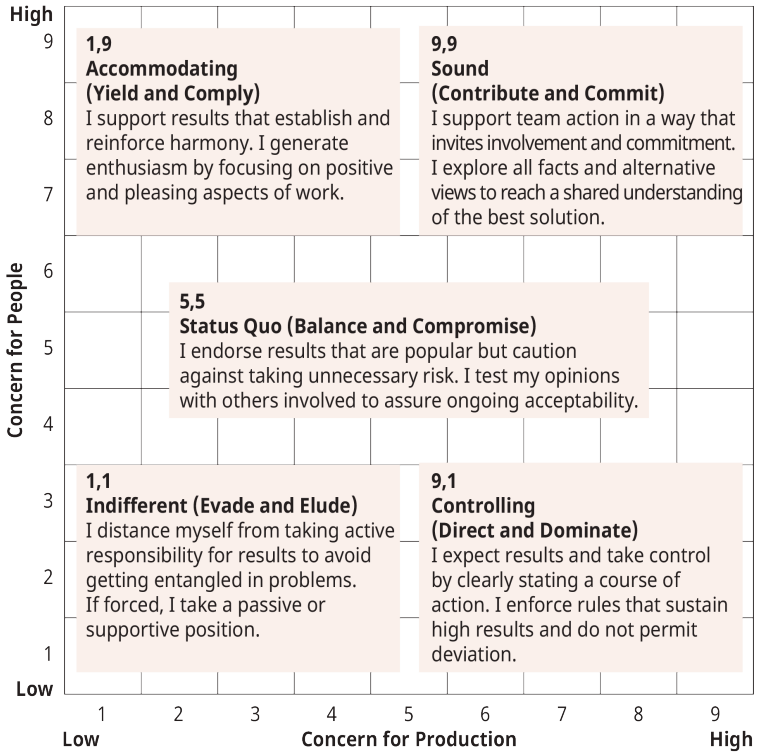


Exhibit 13.9 Blake and Mouton's Managerial Grid® ***Source:*** Adapted from R. McKee and B. Carlson. 1999. *The Power to Change*, p.16.

Blake and Mouton contend that the sound (contribute and commit) leader (a high concern for results and people, or 9,9) style is universally the most effective.[67] 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).[68] 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.[69]

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?

13.6 Situational (Contingency) Approaches to Leadership

6. What are the situational perspectives on leadership?

As early as 1948, Ralph Stogdill 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."[70] 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 results in performance increases and follower satisfaction, and there are times when the results are just the opposite. Contradictory findings such as this lead 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. These are 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.[71] We explore two of the better-known situational theories of leadership, Fred Fiedler's contingency model and Robert J. House's path-goal theory, here. 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.[72] 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

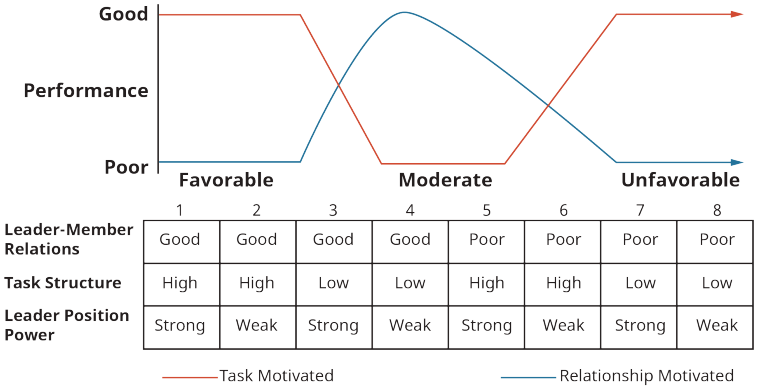
Leaders are asked about their **least-preferred coworker (LPC),** the person with whom they *least* like to work. The most popular interpretation of the LPC score is that it reflects a leader's underlying disposition toward others—for example: pleasant/unpleasant, cold/warm, friendly/unfriendly, and 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 to 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, *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.[73] Several years later, Fiedler changed his situational factor from situational favorability to situational control—where situational control essentially refers to the degree to which a leader can influence the group process.[74] 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, when the task is highly structured, and when the leader's position power is strong (cell 1 in **Exhibit 13.10**). The least-favorable situation occurs under poor leader-member relations, an unstructured task, and weak position power (cell 8).



	1	2	3	4	5	6	7	8
Leader-Member Relations	Good	Good	Good	Good	Poor	Poor	Poor	Poor
Task Structure	High	High	Low	Low	High	High	Low	Low
Leader Position Power	Strong	Weak	Strong	Weak	Strong	Weak	Strong	Weak

Exhibit 13.10 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 need to design job situations to fit the leader.[75]

While the model has not been fully tested and tests have often produced mixed or contradictory findings,[76] 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. 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 a low LPC) are very effective. As tasks are accomplished, a task-oriented leader allows the group to perform its 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.[77] 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 it explains the leader's effectiveness through their behaviors—those with a particular trait will behave in a particular 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.[78] 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 J. House and Ram N. Aditya recently noted that, in spite of the criticisms, there has been substantial support for Fiedler's theory.[79]

Path-Goal Theory

Robert J. House and Martin Evans, while on the 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.[80]

Effective leaders therefore provide rewards that are valued by organizational members. These rewards may be pay, recognition, promotions, or any other item that gives members an incentive 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 task 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. The leader of an archeological expedition, though, 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.[81] 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 13.11**).[82]

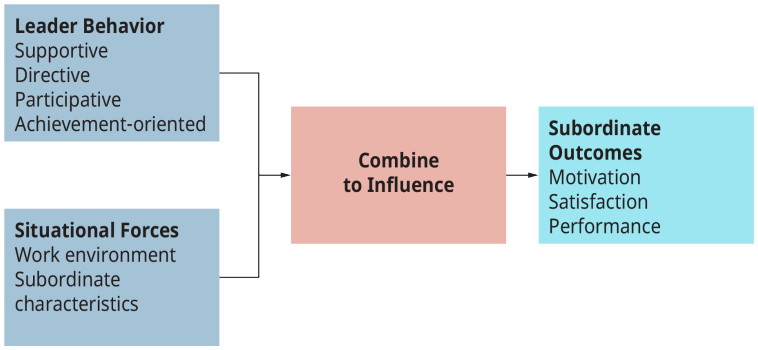


Exhibit 13.11 The Path-Goal Leadership Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Behavior Dimensions

According to path-goal theory, there are four important dimensions of leader behavior, each of which is suited to a particular set of situational demands.[83]

- *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 is performing 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 as well.

- *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 the activities of members. 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 improvement in performance, 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 "diversity breeds innovation, which helps businesses achieve goals and tackle new challenges."[84] *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?"

The vast majority of the 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."[85] 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, we credit them with organizational competitiveness, and we 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 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 for job satisfaction in India has been found to be negative, while in the United States, Poland, and Mexico, the effect is positive.[86] 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.[87] 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 is very different 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.[88]

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?

13.7 Substitutes for and Neutralizers of Leadership

7. 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 13.1).[89] *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 it is a group member's characteristics that make leadership less necessary, 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 characteristics of the organization 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).

Substitutes for and Neutralizers of Leader Behavior

Supportive or Neutralizer	Leader Behavior Influenced	
	Substitute Leadership	Instrumental Leadership
A. Subordinate Characteristics:		
1. Experience, ability, training		Substitute
2. "Professional" orientation	Substitute	Substitute
3. Indifference toward rewards offered by organization	Neutralizer	Neutralizer
B. Task Characteristics:		
1. Structured, routine, unambiguous task		Substitute

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

Table 13.1

Substitutes for and Neutralizers of Leader Behavior		
Supportive or Neutralizer	Leader Behavior Influenced	
	Substitute Leadership	Instrumental Leadership
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 13.1

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, prevents a leader from using initiating structure behavior to pace the line. A union contract that specifies that workers be paid according to seniority prevents 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 so that they can 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 leader's effectiveness is being neutralized by a poor communication system, 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.[90] 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 (nonleader) 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 associated with 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.[91]

MANAGERIAL LEADERSHIP



You Are Now the Leader

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

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 that leaders need a mindset that emphasizes people, and the leader's job is to help the people in the organization to be successful. According to Keating, "If you don't care for people, you can't lead them" (Hakim 2017 n.p.).

For someone who has been promoted over his peers, ground rules are essential. "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 provides a guide to 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 n.p.). 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 that their opinion will be heard. Managers need to 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 in 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.

13.8 Transformational, Visionary, and Charismatic Leadership

8. 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 that will induce their followers into a desired course of action.[92] These reciprocal exchanges take place in the context of a mutually interdependent relationship between the leader and the follower, frequently resulting in interpersonal bonding.[93] The transactional leader moves a group toward task accomplishment by initiating structure and by offering an incentive in exchange for desired behaviors. The **transformational leader**, on the other hand, 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.[94] 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** are those who 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.[95] Evidence indicates that vision is positively related to follower attitudes and performance.[96] As pointed out by Warren Bennis, a vision is effective only to the extent

that the leader can communicate it in such a way that others come to internalize it as their own.[97]

As people, transformational leaders are engaging. They are characterized by extroversion, agreeableness, and openness to experience.[98] They energize others. They increase followers' awareness of the importance of the designated outcome.[99] They motivate individuals to transcend their own self-interest for the benefit of the team and inspire organizational members to self-manage (become self-leaders).[100] 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 the fact that transformational leader behaviors elicit trust and perceptions of procedural justice, which in turn favorably impact follower satisfaction and performance.[101] As R. Pillai, C. Schriesheim, and E. Williams note, "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."[102] 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 and 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."[103] 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 13.12 Travis Kalanick Travis Kalanick was a praised CEO of Uber who managed to increase the value of the company 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 attributes of the leader and followers' needs, values, beliefs, and perceptions.[104] 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.[105] This can work to better the welfare of individuals, 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 death 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.[106] 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.[107] 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.[108] The result is a strong bond between leader and followers, a bond 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 they could. 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. But Uber has not been without its critics, both inside and outside of 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 that traditional yellow taxi companies did. Some municipalities agreed, arguing further than 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 that encouraged a company practice of developing incomplete solutions for the purpose of beating the competitor to market. Fowler went so far as to compare the experience to Game of Thrones, and other former employees even consider "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 think Uber’s poor corporate reputation may have been a factor in 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 percent of every ride (https://www.reuters.com/article/us-uber-profitability/true-price-of-an-uber-ride-in-question-as-investors-assess-firms-value-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?

13.9 Leadership Needs in the 21st Century

9. 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 going on in the world of business. 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 that we will be living in, working with, and competing against are likely to 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, which leads us to believe that "we can get there from here" by making some 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."[109]

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 also 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.[110] 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 percent 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 be *sensitive to diversity*; during the first few years of the 21st century, fewer than 10 percent 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, neocharismatic theory, value-based theory of leadership, and visionary leadership,[111] each of which over time will add to our bank of knowledge about leaders and the leadership process.

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?

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

13.1 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 a tremendous amount of attention and energy to unlocking the secrets of effective leadership. They have kept at this search for perhaps a greater period of time than for any other single issue related to management.

13.2 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.

13.3 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.

13.4 The Trait Approach to Leadership

4. What are the trait perspectives on leadership?

13.5 Behavioral Approaches to Leadership

5. What are the behavioral perspectives on leadership?

It is clear that 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.

13.6 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 impacts 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 type 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.

13.7 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.

13.8 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 amounts of chaos in their external environments, searches for "the right leader" who can bring about major organizational transformations has intensified. This search once again focuses our attention 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.

13.9 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 external to the team have as one of their primary roles 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 the execution of

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 theories of leadership 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 in the world.

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. Both 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 are the traits and skills that allow them to succeed in their roles? How can you incorporate the traits that allow them to be successful in their roles into the skills you will need to have 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 want to 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, the manager, and communication with the entire team?

Managerial Decision Exercises

1. You are the newly appointed commissioner of a major sports league that is currently in a very 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 [http://www.espn.com/mlb/story/_/id/21199462/rob-manfred-leadership-was-tested-yuli-gurriel-racially-insensitive-behavior-passed] 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 where 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	
+	–

Exhibit 13.13 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)



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.).

Al Bolea, a leadership trainer, also attributes the incident to leadership failure. In a piece written for *Applied Leadership*, Bolea writes, "It's about front line employees getting the wrong messages from the most senior levels of the company." He contends that the mindset within United put procedures above context in the minds of the employees. What the gate agents should have considered was the company's reputation, which should have prevented them from doing something most airline customers see as "profoundly immoral" (Bolea 2017 n.p.)

William C. Taylor, cofounder 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, 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" (2017 n.p.). 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 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 n.p.).

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

Critical Thinking Questions

1. How have other airlines handled similar situations?
2. How much was in United Airlines's 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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14

Work Motivation for Performance

Exhibit 14.1 (Credit: mohamed_hassan/ Pixabay/ (CC BY 0))

Introduction

Learning Outcomes

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

1. Define motivation, and distinguish direction and intensity of motivation.
2. 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.
3. 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.
4. Describe the modern advancements in the study of human motivation.

EXPLORING MANAGERIAL CAREERS

Bridget Anderson

Bridget Anderson thought life would be perfect out in the "real world." After earning her degree in computer science, she landed a well-paying job as a programmer for a large nonprofit organization whose mission she strongly believed in. And—initially—she was happy with her job.

Lately however, Bridget gets a sick feeling in her stomach every morning when her alarm goes off. Why this feeling of misery? After all, she's working in her chosen field in an environment that matches her values. What else could she want? She's more puzzled than anyone.

It's the end of her second year with the organization, and Bridget apprehensively schedules her annual performance evaluation. She knows she's a competent programmer, but she also knows that lately she's been motivated to do only the minimum required to get by. Her heart is just not in her work with this organization. Not exactly how she thought things would turn out, that's for sure.

Bridget's manager Kyle Jacobs surprises her when he begins the evaluation by inquiring about her professional goals. She admits that she hasn't thought much about her future. Kyle asks if she's content in her current position and if she feels that anything is missing. Suddenly, Bridget realizes that she *does* want more professionally.

Question: Are Bridget's motivational problems intrinsic or extrinsic? Which of her needs are currently not being met? What steps should she and her manager take to improve her motivation and ultimately her performance?

Outcome: Once Bridget admits that she's unhappy with her position as a computer programmer, she's ready to explore other possibilities. She and Kyle brainstorm for tasks that will motivate her and bring her greater job satisfaction. Bridget tells Kyle that while she enjoys programming, she feels isolated and misses interacting with other groups in the organization. She also realizes that once she had mastered the initial learning curve, she felt bored. Bridget is ready for a challenge.

Kyle recommends that Bridget move to an information systems team as their technical representative. The team can use Bridget's knowledge of programming, and Bridget will be able to collaborate more frequently with others in the organization.

Bridget and Kyle set specific goals to satisfy her needs to achieve and to work collaboratively. One of Bridget's goals is to take graduate classes in management and information systems. She hopes that this will lead to an MBA and, eventually, to a position as a team leader. Suddenly the prospect of going to work doesn't seem so grim—and lately, Bridget's been beating her alarm!

If you've ever worked with a group of people, and we all have, you have no doubt noticed differences in their performance. Researchers have pondered these differences for many years. Indeed, John B. Watson first studied this issue in the early 1900s. Performance is, of course, an extremely important issue to employers because organizations with high-performing employees will almost always be more effective.

To better understand why people perform at different levels, researchers consider the major determinants of performance: ability, effort (motivation), accurate role perceptions, and environmental factors (see **Exhibit 14.2**). Each performance determinant is important, and a deficit in one can seriously affect the others. People who don't understand what is expected of them will be constrained by their own inaccurate role perceptions, even if they have strong abilities and motivation and the necessary resources to perform their job. None of the performance determinants can compensate for a deficiency in any of the other determinants. Thus, a manager cannot compensate for an employee's lack of skills and ability by strengthening their motivation.

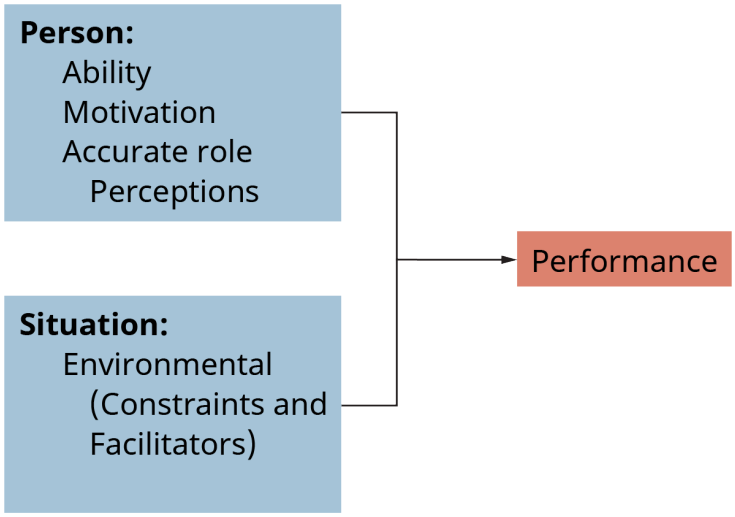

Exhibit 14.2 Determinants of Performance (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

14.1 Motivation: Direction and Intensity

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 (like 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).[1]

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, like 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.



Exhibit 14.3 Tom Brady 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? (High-intensity-motivated people are persistent!)

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. (At some point you have to decide on a major if you want to graduate, even if you do have straight As.)

Employees' targets don't always match with what their employers want. Absenteeism (some employees call this "calling in well") is a major example.[2] 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?

14.2 Content Theories of Motivation

2. 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.[3] 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 14.1).[4]

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 (another who resembles the subject or who likes the subject). To please and win 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.

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 14.1

Sample Items from Murray's List of Needs	
Social Motive	**Brief Definition**
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.
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 14.1

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 their need for achievement because they 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).[5] 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, the success of many organizations is dependent on the nAch levels of their employees.[6] 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.



Exhibit 14.4 New York Metro workers carrying a sign 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."[7] 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 CB 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. 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 @ 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 @ Wharton 2016).

Other companies have made social responsibility an everyday part of what they do. Launched in 2013, Bombas is the brain child 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 motivates 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.

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1. Do you think it is a 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.[8] Thousands of managers in the 1960s were exposed to Maslow's theory through the popular writings of Douglas McGregor.[9] 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) focuses. 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."[10] 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.



Exhibit 14.5 Seattle protester with sign (Credit: Adrenalin Tim /flickr/ Attribution 2.0 Generic (CC BY 2.0))

Exhibit 14.5 A protester at an anti-war demonstration in Seattle held up this sign. Where would you place that

on Maslow's hierarchy of needs?

Exhibit 14.6 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.

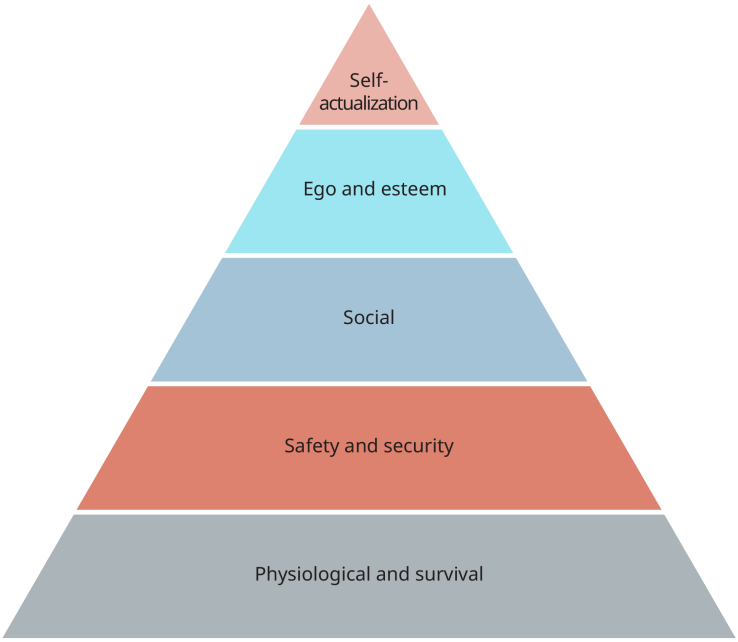

Exhibit 14.6 Maslow's Hierarchy of Needs *Source:* Based on A. H. Maslow. 1943. A theory of human motivation. *Psychological Bulletin* 50:370–396.

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 like safety and security and social needs. Once satisfied, employees will be motivated to build esteem and respect through their work achievements. Exhibit 14.6 shows how Maslow's theory relates to factors that organizations can influence. For example, by providing adequate pay, safe working conditions, and cohesive work groups, 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.[11] 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.[12] Alderfer's **ERG theory** compresses Maslow's five need categories into three: existence, relatedness, and growth.[13] 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 Exhibit 14.7, the ERG model addresses the same needs as those identified in Maslow's work:



Exhibit 14.7 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.

Exhibit 14.8 identifies a number of ways in which organizations can help their members satisfy these three needs.

Growth Opportunities

- Challenging job
- Creativity
- Organizational advancement
- Responsibility
- Autonomy
- Interesting work
- Achievement
- Participation

Relatedness Opportunities

- Friendship
- Interpersonal security
- Athletic teams
- Social recognition
- Quality supervision
- Work teams
- Social events
- Merit pay

Existence Opportunities

- Heat
- Lighting
- Base salary
- Insurance
- Retirement
- Air conditioning
- Restrooms
- Cafeteria
- Job security
- Health programs
- Clean air
- Drinking water
- Safe conditions
- No layoffs
- Time off

Exhibit 14.8 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.



Exhibit 14.9 Jamie Dimon 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.[14] 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).[15]

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.[16] 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 more or less give ourselves. Intrinsic rewards satisfy higher-order needs like 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.[17] In SDT, extrinsic motivation refers to the performance of an activity in order 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 in order 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.

14.3 Process Theories of Motivation

3. 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.[18] 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.[19] The learning process involves three distinct steps (see Table 14.2). 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.

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)

Table 14.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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. A **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 (like 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).



Exhibit 14.10 Workers stacking eggs 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.[20]

Schedules of Reinforcement

When a person is learning a new behavior, like 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 need to 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 to the outcomes and inputs of other people.[21] 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 in order 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 to 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 **Exhibit 14.11**). **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. Since 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).

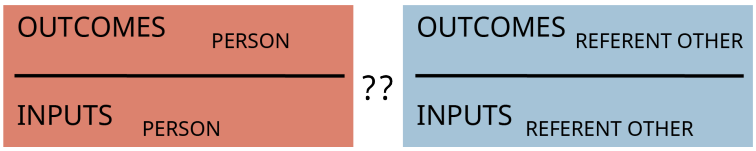

Exhibit 14.11 The Equity Theory Comparison (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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. Since 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 **Exhibit 14.11**).

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 percent 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.[22] 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 percent of the other employees, worse than 20 percent).[23] 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.[24] 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 need to be sensitive to employees' need for equity. Employers need to 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.[25] 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) in order to produce a state of perceived equity. As we 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:

$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 affect 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, like ask 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 as a referent other Bill, who installs dashboards but makes less money than John.
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, 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 need to 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.[26] Everyone is sensitive to reward allocation.[27] 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.[28],[29] 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 (like get 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 need to 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 a 90 percent 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 need to 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 need to *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, and thus her intensity, to the major goal will be greater.

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 **Exhibit 14.12**. The process starts with our values. Values are our beliefs about how the world should be or act, and often include words like "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. **Exhibit 14.12** 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.

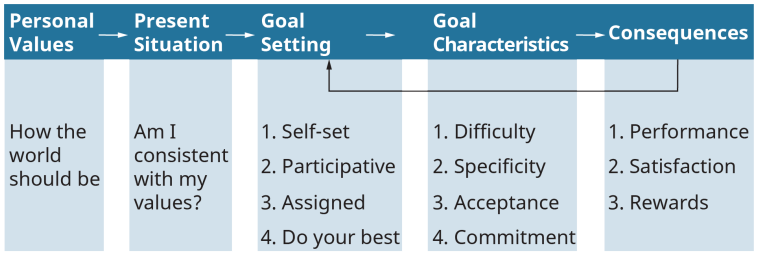

Exhibit 14.12 The Goal-Setting Process (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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.[30] 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.[31] 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 percent 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 percent pay increase desirable until we find out that it was the lowest raise given in our work group.

Exhibit 14.13 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 V_a). 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.

1 Sometimes E2s are called *instrumentalities,* because they are the perception that performance is instrumental in getting some desired outcome.

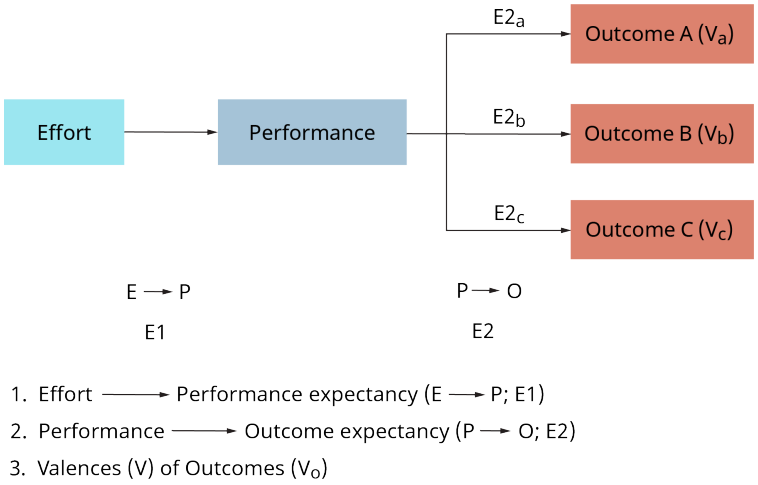

Exhibit 14.13 The Expectancy Theory of Motivation (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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

2 It can also be expressed as an equation:

$$\text{Force to Choose A level of Effort} = E1 \times \sum (E2_o \times V_o)$$

Where V_o is the valence of a given outcome (o), and $E2_o$ 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.

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 need to 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.[32] 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.[33]

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 need to 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 Starrfmonline 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 n.p.)

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' effort, 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.).

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http://starrfmonline.com/2017/03/30/hr-today-motivating-people-starts-with-right-attitude/#

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 **Exhibit 14.11**. If we don't feel that the outcomes we receive are equitable compared to 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.[34] A reexamination of **Exhibit 14.11** 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.

14.4 Recent Research on Motivation Theories

4. Describe the modern advancements in the study of human motivation.

Employee motivation continues to be a major focus in organizational behavior.[35] 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 more fair 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 in order 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.[36]

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 n.p.).

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 hearpreneur 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 n.p.). Only one of the 23 actually cited money and material success as a motivating factor to keep working.

However it is described, entrepreneurs seem to agree that passion and determination are key factors that carry them through the grind of the day-to-day.

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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?[/BOX]

CONCEPT CHECK



1. Understand the modern approaches to motivation theory.

Key Terms

ability The knowledge, skills, and receptiveness to learning that an individual brings to a task or job.
avoidance learning Occurs when people learn to behave in a certain way to avoid encountering an undesired or unpleasant consequence.
content motivation theories Theories that focus on what motivates people.
direction What a person is motivated to achieve.
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.
ERG theory Compresses Maslow's five need categories into three: existence, relatedness, and growth.
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 motivation Occurs when a person performs a given behavior to acquire something that will satisfy a lower-order need.
extrinsic outcomes Are awarded or given by other people (like 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.
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."
input Any personal qualities that a person views as having value and that are relevant to the organization.
instincts Our natural, fundamental needs, basic to our survival.
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.
intrinsic motivation Arises out of performing a behavior in and of itself, because it is interesting or "fun" to do.
intrinsic outcomes Are awarded or given by people to themselves (such as a sense of achievement).
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.
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."
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 A human condition that becomes energized when people feel deficient in some respect.
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.
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 environment Refers to those factors that impact employees' performance but are essentially out of their control.

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.

primary needs Are instinctual in nature and include physiological needs for food, water, and sex (procreation).

process motivation theories Theories that focus on the how and why of motivation.

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.

role perceptions The set of behaviors employees think they are expected to perform as members of an organization.

schedules of reinforcement The frequency at which effective employee behaviors are reinforced.

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.

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.

work motivation The amount of effort a person exerts to achieve a level of job performance

Summary of Learning Outcomes

14.1 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.

14.2 Content Theories of Motivation

2. 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.

14.3 Process Theories of Motivation

3. 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.

14.4 Recent Research on Motivation Theories

4. 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 to 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 onetime stellar performer. They were twice the top performing salesperson in the company in the past decade. In the past year, Shawn has missed goal by 4 percent. Shawn recently became the parent to twins and says that the reason for missing goal this year was due to the territory being 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 that 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 crewmembers 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 n.p.). 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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15

Managing Teams

Exhibit 15.1 (Credit: MabelAmber/ Pixabay/ (CC BY 0))

Introduction

Learning Outcomes

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

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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.

15.1 Teamwork in the Workplace

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".[1] 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. 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 its influence on others within the business (e.g., financial performance of the business.)



Exhibit 15.2 Finance Working Group Smart managers understand that not all of a company's influential relationships appear as part of the organization chart. Consider a publishing company that might have a lead finance head for each group, such as adult fiction, nonfiction, young adult, and children's book divisions. A finance team working group would help spread best practices and lead to more cohesive operations for the entire organization. (Credit: thetaxhaven /flickr / Attribution 2.0 Generic (CC BY 2.0))

So, what makes a team truly effective? According to Katzenbach and Smith's "Discipline of Teams," there are several practices that the authors have observed in successful teams. These practices include:

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 in order 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 up front 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 it felt like they were obvious—and everyone always came up with the same list. It is so critical that the team takes the time up front to capture their own rules of the road in order 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 that they're really 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 to spend time together, think together, and bond. Time in person, time on the phone, time in meetings—all of it counts and helps to build camaraderie and trust.

Exploit the power of positive feedback, recognition, and reward. Positive reinforcement is a motivator that will help the members of the team feel more comfortable contributing. It will also reinforce the behaviors and expectations that you're driving within the team. Although there are many extrinsic rewards that 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 very successfully. Bringing together a team of experts from across the business would seem to be a best practice in any situation. However, Gratton and Erickson, 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. In their study, they 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 "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 task ambiguity[2]

As teams grow in size and complexity, the standard practices that worked well with small teams don't work anymore. Organizations need to think about how to make collaboration work, and they should 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.

15.2 Team Development Over Time

2. 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 that 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 model are:[3]

- Forming
- Storming
- Norming
- Performing

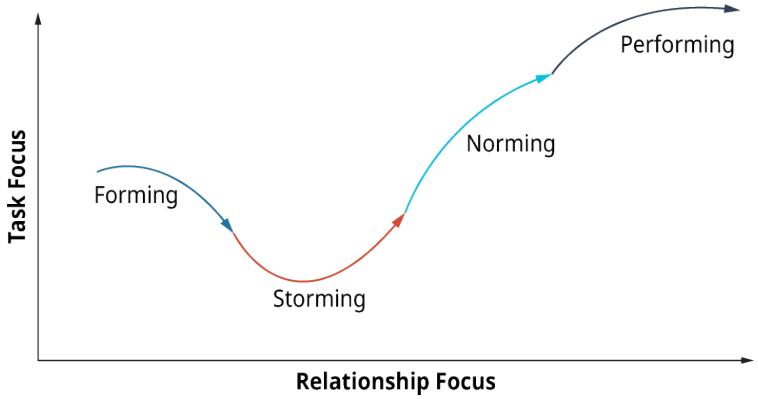

Exhibit 15.3 Tuckman's Model of Team Development Attribution: Copyright Rice University, OpenStax, under CC BY NC-SA-NC-SA 4.0 license

The **Forming** stage begins with the introduction of team members. This is known as the "polite stage" in which the team is mainly focused 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.



Exhibit 15.4 The Storming Stage 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, slowly the **Norming** stage may start to take root. During Norming, the team is starting to work well together, and buy-in to group goals occurs. The team is establishing and maintaining ground rules and boundaries, and there is 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 is entering the **Performing** stage. The team is completely self-directed and requires little management direction. The team has confidence, pride, and enthusiasm, and there is a congruence of vision, team, and self. 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 Exhibit 15.5.

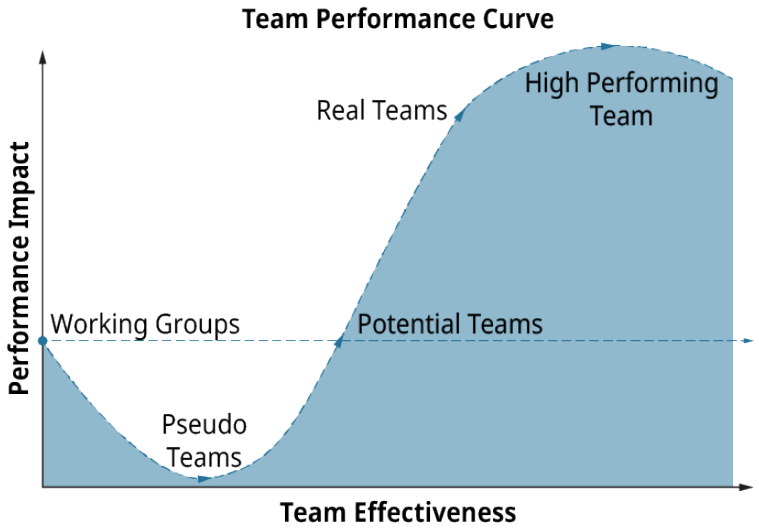

Exhibit 15.5 Team Performance Curve (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The process of becoming a high-performance team is not a linear process. Similarly, the four stages of team development in the Tuckman model are not linear, and there are also factors that 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 backwards slide to an earlier stage. Similarly, if a new project task is introduced that causes confusion or anxiety for the group, then this may also cause a backwards 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 personally found the same to be 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, there may be funding that the startup has received from investors, or the startup could be growing and powering itself organically. Either way, the startup faces many different questions in the beginning, which will have a tremendous impact on its growth potential and performance down the road. One of the most critical questions that faces 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 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 in a way that will 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 in order to avoid problems in the long term. Relationships refers to the actual team members that are chosen, and there are several caveats to keep in mind. Hiring relatives or close friends because they are trusted may seem like the right idea in the beginning, 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, as well as 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 that they are splitting the pie—i.e., both short-term and long-term compensation. For startup founders, this can be a very difficult decision when they have to weigh the balance of giving something away versus gaining human capital that may ultimately help the business to 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 a careful analysis of 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?

15.3 Things to Consider When Managing Teams

3. What are some key considerations in managing teams?

For those of us who have had the pleasure of managing or leading a team, we 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, which at

various times will act both like a group and like a bunch of individuals. Managing teams is no small feat, and the most experience 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* (HBS Press, 1987, pp. 85–87), he quotes a manager who had successfully worked to turn around a number of organizations:[4]

"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 faces new managers is figuring out to balance all of 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, his peers, his boss, and the company's customers place on the new manager will cause conflict at times. Having teams of their own, new managers may think that managing their direct reports is the most important role to play, 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 in order to be successful. 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 that 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 they 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 relation building in order to be successful. 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 *Harvard Business Review* article "Managing Your Team"[5] (HBR 1995), 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 as to what he wants to accomplish—on the project, in one's career, and in life. The team itself, of course, has goals and success metrics that it needs to meet in order to be successful. Sometimes these can be in conflict with each other. Competition may arise among team members, and a win-loss attitude may take place 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 productively pursue the team goal. 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

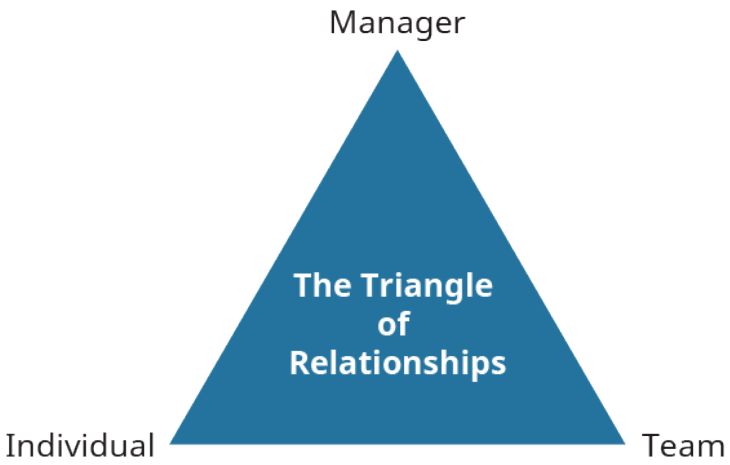

Exhibit 15.6 The Triangle of Relationships (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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 that you have been a part of 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 to take place, and so there may be the feeling of forces opposing the project team efforts. A strong team manager needs manage these "boundaries" with 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.[6] To do so, they must understand the power dynamics of the larger organization and invest time and energy in building and maintaining relationship 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 to manage the team itself—both the people elements and the process elements, or task at hand. The process-focused elements include managing the work plan to reach the overall goal, as well as the incremental meetings and milestones that are a part of the team's journey to reach the longer-term goal. Keeping the team focused on its objectives—beginning with setting agendas all the way to managing project tasks and celebrating milestones—assures that the team will stay on track. Projects and initiatives vary in size, scope, and complexity, and 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 that 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 adversity or team conflict in the future. 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 towards 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?

15.4 Opportunities and Challenges to Team Building

4. What are the benefits of conflict for a team?

There are many sources of **conflict** for a team, whether it is 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 that it 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, it can be disruptive to group progress and morale, and it could be detrimental to building lasting relationships. It is generally seen as a negative, even though constructive conflicts and constructive 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 can highlight critical points of discussion and contention that need to be given 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, in his bestselling book *The Five Dysfunctions of a Team* (2002, p. 188), writes:[7]

"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 successfully through conflicts. Sometime 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 the 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.

There are a variety of individual responses to conflict that you may see as a team member. 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, Davis, and Kraus (2005) 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.[8] 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 Exhibit 15.7 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

Exhibit 15.7 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 through, 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?

15.5 Team Diversity

5. How does team diversity enhance decision-making and problem-solving?

Decision-making and problem-solving can be much more dynamic and successful when performed 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 that 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 with 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.[9] 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 that did not have any women on the board.



Exhibit 15.8 The Benefits of Diversity for Teams Teams made up of diverse members tend to perform better than teams of similar backgrounds. Here, the Women of Color in Technology work on a project. The tech industry has been criticized for the lack of diversity among its ranks, and groups like the Women of Color in Technology are looking to change that. (Credit: WOCin Tech Chat/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

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.[10] 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." It turned out that 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 noted 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, the opposing viewpoints are more likely to come out and the team members feel obligated to research and address the questions that have been raised. Again, this enables a richer discussion and a more in-depth fact-finding and exploration of opposing ideas and viewpoints in order 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:[11]

- 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—those that have multiple product lines or that operate in multiple industry segments.
- To reach its potential, gender diversity needs to go beyond tokenism. In the study, innovation performance only increased significantly when the workforce included more than 20% women in management positions. Having a high percentage of female employees doesn't increase innovation if only a small number of women are managers.

- At companies with diverse management teams, openness to contributions from lower-level workers and an environment in which 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 need to reflect upon these findings during the early stages of team selection so that they can 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?

15.6 Multicultural Teams

6. 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, there are some key practices that are recommended to those who are 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.[12] 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 our problems. This difference can cause conflict because, at the extreme, the direct style may be considered offensive by some, while 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 that 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 a great deal of 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 that there are 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 there are unproductive subgroups or cliques within the team that need to be moved around. **Managerial intervention** is the technique of making decisions by management and without team involvement. This technique is one that 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 to be so great that an individual on the team can no longer work with the team productively, then it may be necessary to remove the team member in question.

There are some people who 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" (Lee and Liao, 2015), the authors assert that "multicultural leaders may relate better to team members from different cultures and resolve conflicts more easily.[13] 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.

In order to help employees become better team members in a world that is increasingly multicultural, there are a few best practices that the authors recommend 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 to raise your own awareness of the cultural differences and norms that 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, then getting to know some of your company's cross-cultural colleagues or foreign visitors will help you to practice your skills. Serving on a cross-cultural project team and taking the time to get 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 fellow 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, there are so many challenges that 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 the same way that you might learn their language in a book. There are colloquialisms, terms, and abbreviations of words that 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 would take another food that was 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 in order to resolve misunderstandings.

Understanding and finding common ground with your global colleagues isn't easy, and 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 as people.

Discussion Questions

1. What are some multicultural experiences that you've had in which you feel that 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 both 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 being able to view situations from more than one cultural framework. In order 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 the

beliefs, customs, and taboos of foreign cultures 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. It is this physical component (demeanor, eye contact, posture, accent) that shows a deeper level of 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 15.1 for a short diagnostic that allows you to assess your cultural intelligence.

Assessing Your Cultural Intelligence	
Give your responses using a 1 to 5 scale where 1 means that you strongly disagree and 5 means that you 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 am going to relate to people from a different culture before I meet with them.
	When I come into a new cultural situation, I can immediately sense whether things are going well or if things are 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***.

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 15.1

Assessing Your Cultural Intelligence	
	I have confidence in my ability to deal well with people from different cultures than 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 15.1

Cultural intelligence is an extension of emotional intelligence. An individual must have a level of awareness and understanding of the new culture so that they can 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.[14] 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.

Key Terms

adaptation Technique of working with or around differences
boundaries Lines that make the limits of an area; team boundaries separate the team from its external stakeholders
cognitive complexity The ability to view situations from more than one cultural framework
collaboration The action of working with someone to produce or create something
cultural intelligence A skill that enables individuals to function effectively in cross-cultural environments
emotional intelligence The capability of individuals to recognize their own emotions and others' emotions
exit Technique of last resort—removal of a team member
Forming The first stage of team development—the positive and polite stage
ground rules Basic rules or principles of conduct that govern a situation or endeavor
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)
knowledge economy The information society, using knowledge to generate tangible and intangible values
managerial intervention Technique of making decisions by management and without team involvement
mining To delve in to extract something of value; a technique for generating discussion instead of burying it
Norming The third stage of team development—when team resolves its differences and begins making progress
paradox A self-contradictory statement or situation
Performing The fourth stage of team development—when hard work leads to the achievement of the team's goal
real-time permission A technique for recognizing when conflict is uncomfortable, and giving permission to continue
Storming The second stage of team development—when people are pushing against the boundaries
structural intervention Technique of reorganizing to reduce friction on a team
working group Group of experts working together to achieve specific goals; performance is made up of the individual results of all members

Summary of Learning Outcomes

15.1 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 of the practices that make a team effective are that they have a sense of urgency and direction; they set clear rules of behavior; they spend lots of time together; and they utilize feedback, recognition, and reward.

15.2 Team Development Over Time

2. How do teams develop over time?

Teams go through different stages of team development, which were 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 and the team is getting to know each other, and conflicts and project stress begins to seep 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 and is having some successes and gaining traction. This is definitely 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.

15.3 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 will make a real difference to the goals and outcomes. Managers need to 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 both individual and collective goals that need to be managed effectively. A manager needs to foster both 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 functions in managing a team.

15.4 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 that 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 it helps people to better understand opposing points of view. If a team doesn't work through conflict well and doesn't feel comfortable with the sharing and debating of ideas, it loses the opportunity to effectively vet ideas and potential solutions. The result is that the decision or solution will be limited, as team members haven't fully shared their concerns and perspectives.

15.5 Team Diversity

5. How does team diversity enhance team decision-making and problem-solving?

Decision-making and problem-solving is so much more dynamic and successful when performed 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 tend to 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.

15.6 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 on their teams, who bring with them their own diverse backgrounds and perspectives. There are very positive aspects that result from the added diversity, as discussed in the previous questions. There are also challenges that we need to be aware of when we are 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. There are some team manager interventions that 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 it is so important to manage a team's boundaries? How can external stakeholders impact the function and performance of the team? Why is emotional intelligence such an important skill to have when managing a team?
4. In your experience, have you ever been in a situation in which 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 that was high on cultural intelligence? How about a team that was low on 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. There are two individuals on the team that seem to be 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 who are 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. What is 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?

Sources: Adapted from Katherine W. Phillips, "How Diversity Makes Us Smarter," *Scientific American*, October 2014, p. 7–8.



16

Managerial Communication

Exhibit 16.1 (Credit: UC Davis College of Engineering/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Introduction

Learning Outcomes

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 all of 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 North Star of the company, providing guidance and direction for the entire organization. With other stakeholders, such as shareholders, suppliers, regulatory agencies, and customers, CEOs often take more reserved and structured approaches. One CEO who definitely 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, and where most CEOs appear on television interviews in standard business attire, Legere appears with shoulder-length hair 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 came to an agreement to merge with Sprint. Of all the consolidation sweeping through the

media and telecommunications arena, T-Mobile and Sprint are the most direct of 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 looks a bit different now, as does the administration in power.

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. It is likely that the personality and communication style that the executives reveal in public is also the way that they relate to their employees. The outgoing personality of someone such as John Legere will motivate some employees, but he might be seen as too much of a cheerleader by other employees.

Sometimes the unscripted comments and colorful language that Legere uses 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 have. Legere's comments caused lengthy discussions in online forums such as Reddit about his choice of words. Legere is known for speaking his mind in public and often uses profanity, but many thought this comment crossed the line. While frank, open communication is often appreciated and leads to a clarity of message, senders of communication, be it in a public forum, an internal memo, or even a text message, should always think through the consequences of their words.

Sources: Tara Lachapelle, "T-Mobile's Argument for Sprint Deal is as Loud as CEO John Legere's Style," *The Seattle Times*, July 9, 2018, https://www.seattletimes.com/business/t-mobiles-argument-for-sprint-deal-is-as-loud-as-ceo-john-legeres-style/; Janko Roettgers, "T-Mobile CEO John Legere Pokes Fun at Verizon's Go90 Closure," *Variety*, June 29, 2018, https://variety.com/2018/digital/news/john-legere-go90-1202862397/; Rachel Lerman, "T-Mobile's Loud, Outspoken John Legere is Not Your Typical CEO," *The Chicago Tribune*, April 30, 2018, www.chicagotribune.com/business/sns-tns-bc-tmobile-legere-20180430-story.html; Steve Kovach, T-Mobile Employees Speak Out and Call CEO's Recent Rape Comments "Violent" and "Traumatizing"," *Business Insider*, June 27, 2014, https://www.businessinsider.com/t-mobile-employees-speak-out-legere-rape-comment-2014-6; Brian X. Chen, One on One: John Legere, the Hip New Chief of T-Mobile USA," *New York Times*, January 9, 2013, https://bits.blogs.nytimes.com/2013/01/09/one-on-one-john-legere-the-hip-new-chief-of-t-mobile-usa/.

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.

16.1 The Process of Managerial Communication

1. Understand and describe the communication process.

Interpersonal communication is an important part of being an effective manager:

- It influences the opinions, attitude, 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. Exhibit 16.2 illustrates a simple communication episode where a **communicator** encodes a message and a **receiver** decodes the message.[1]

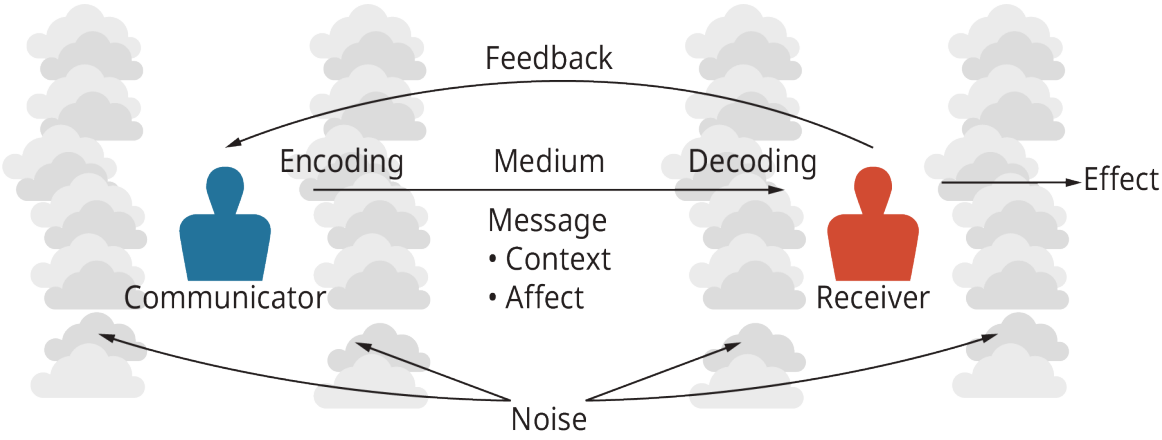

Exhibit 16.2 The Basic Communication Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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 at the time of 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.

There are three basic types of feedback that occur in communication.[2] These are informational, corrective, and reinforcing. In informational feedback, the receiver provides nonevaluative 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 their responsibility to monitor inventory. In reinforcing feedback, the receiver communicated that they have clearly received the message and its intentions. For instance, the grade that you receive on a term paper (either positive or negative) is reinforcing 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 Exhibit 16.2, 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?

16.2 Types of Communications in Organizations

2. 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 messages or exchanges of information that are spoken, and it's the most prevalent type of communication.

Written Communication

This includes e-mail, 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. As well, 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 an 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 crucial messages may be drowned out by the volume in your inbox.

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 e-mail 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 e-mail 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 e-mail is to turn off the spigot of incoming messages. There are obvious practices that 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. E-mails 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 are waiting for 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 that are for information only and that you may want to refer back to in the future.

This system prioritizes e-mails based on timescales rather than the e-mails' senders, enabling you to better schedule work and set deadlines.

Another thing to consider is your outgoing e-mail. If your outgoing messages are not specific, too long, unclear, or are copied too widely, your colleagues are likely to 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 e-mails manageable.

Critical Thinking Questions

1. How are you managing your e-mails now? Are you mixing personal and school and work-related e-mails in the same account?
2. How would you communicate to a colleague that is sending too many FYI e-mails, sending too may unclear e-mails, or copying too many people on her messages?

Sources: Amy Gallo, Stop Email Overload, *Harvard Business Review*, February 21, 2012, https://hbr.org/2012/02/stop-email-overload-1; Barry Chingel, "How to beat email Overload in 2018", *CIPHER*, January 16, 2018, https://www.ciphr.com/advice/email-overload/; Monica Seely, "At the Mercy of Your Inbox? How to Cope With Email Overload", *The Guardian*, November 6, 2017, https://www.theguardian.com/small-business-network/2017/nov/06/at-the-mercy-of-your-inbox-how-to-cope-with-email-overload.

Nonverbal Communication

There is also the transformation of information without speaking or writing. Some examples of this are things such as traffic lights and sirens as well as things such as 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.

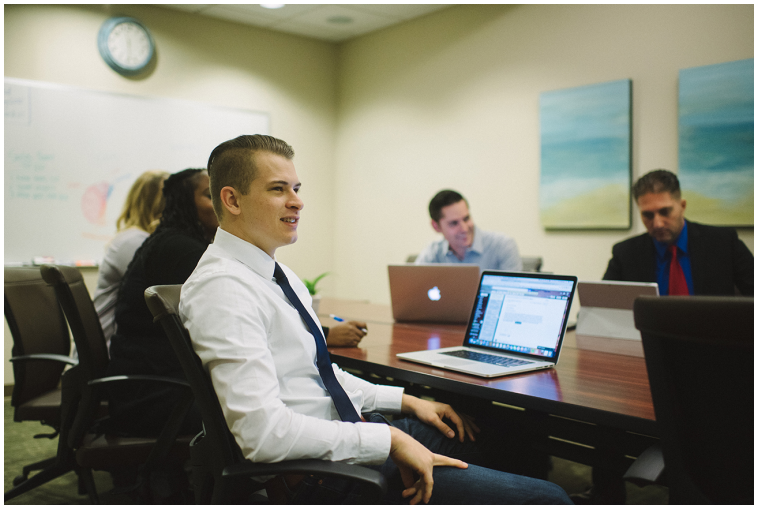

Exhibit 16.3 Body Language at a Meeting Your body language can send messages during a meeting. (Credit: Amtec Photos/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Major Influences on Interpersonal Communication

Regardless of the type of communication involved, the nature, direction, and quality of interpersonal communication processes can be influenced by several factors.[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 examples, status barriers between employees at different levels of the organization can influence things such as addressing a colleague as 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. **Exhibit 16.4** illustrates a variety of communications that illustrate social influences in the workplace.

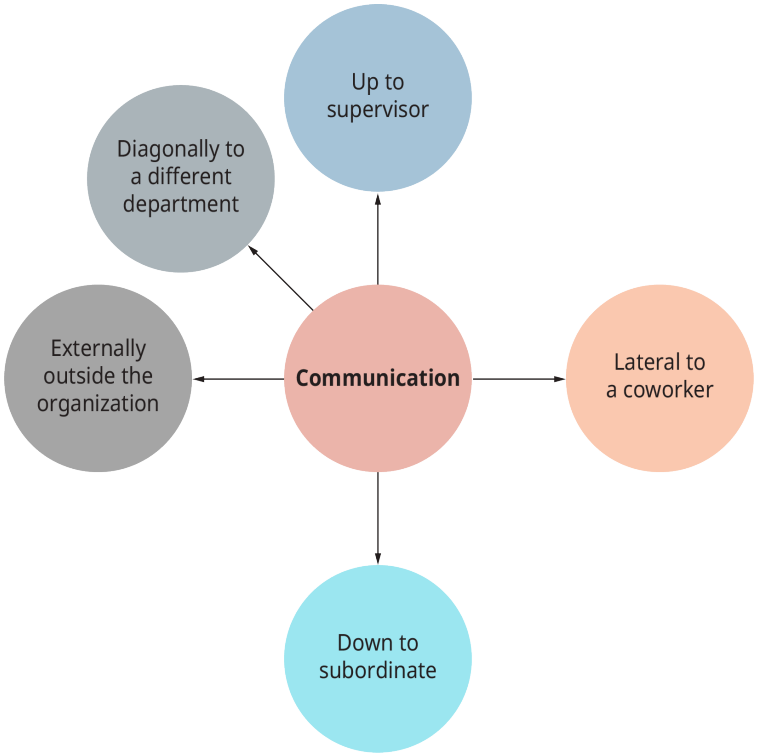

Exhibit 16.4 Patterns of Managerial Communication (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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 if they 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 that they say may be interpreted as 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 to decentralize an organization because that will lead to a more participative structure and lead to improved communication in the organization. When messages must travel through multiple levels of an organization, the possibility of distortion can also occur, which would be diminished with more face-to-face communication.



Exhibit 16.5 Informal Communication in Organizations Smart managers understand that not all of a company's influential relationships appear as part of 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 that form 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?

16.3 Factors Affecting Communications and the Roles of Managers

3. Understand how power, status, purpose, and interpersonal skills affect communications in organizations.

The Roles Managers Play

In Mintzberg's seminal study of managers and their jobs, he found the majority of them clustered around three core management roles.[5]

Interpersonal Roles

Managers are required to interact with a substantial number of 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.[6]

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.[7]

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 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 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, especially for the Jeep brand, were due in large measure to Marchionne'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.[8]

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 in view of 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% 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.

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 because of their network of personal contacts. A good portion of this information arrives in verbal form, often as gossip, hearsay, and speculation.[9]

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 having to contact the manager directly.[10]

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.[11]

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 not clear 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.[12]

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 amounts of 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 that are the result of brief but important negotiations between and among employees, customers and clients, suppliers, and others with whom managers must deal.[13]

CONCEPT CHECK



1. What are the major roles that managers play in communicating with employees?
2. Why are negotiations often brought in to communications by managers?

16.4 Managerial Communication and Corporate Reputation

4. 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.'"[14]

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."[15] 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."[16] 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."[17]

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 a speaker and writer will determine how well they are able to 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. Though, 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 processes of critical thinking. 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 both 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?

16.5 The Major Channels of Management Communication Are Talking, Listening, Reading, and Writing

5. Know why talking, listening, reading, and writing are vital to managing effectively.

The major channels of managerial communication displayed in **Exhibit 16.6** are talking, listening, reading, and writing. Among these, talking is the predominant method of communicating, but as e-mail and texting increase, reading and writing are increasing. Managers across industries, according to Deirdre Borden, spend about 75% of their time in verbal interaction. Those daily interactions include the following.

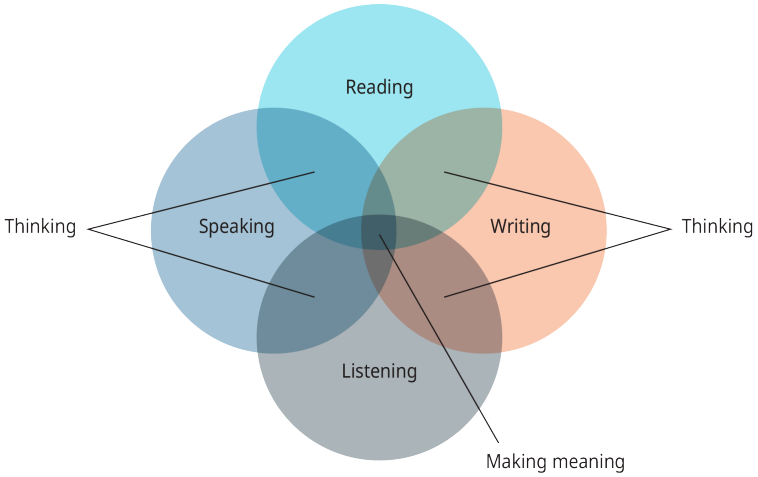

Exhibit 16.6 Reading, Writing, Speaking, and Listening: How They Help in Creating Meaning (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

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 literally 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 they would be if the people were in the same room.[18]

Presentations to Small Groups

Managers frequently find themselves making presentations, formal and informal, to groups of three to eight people for many different reasons: they pass along information given to them by executives, they review the status of projects in process, and they explain 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 are unable to 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, Nichols and Stevens, and Wolvin and Coakley, confirm: most managers spend the largest portion of their day talking and listening.[19] Werner's 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.[20]



Exhibit 16.7 Public speaking 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."[21]

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 in a clear, unambiguous fashion, 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 career, is to keep their name out of such stories. Remember: those who are 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.[22] 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 sort of 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 set of facts or evidence but may not reach the same conclusions. Few things in life are self-explanatory.

Context always drives meaning. The backdrop to a message is always of paramount importance to the listener, viewer, or reader in reaching a reasonable, rational conclusion about what they see and hear. 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 possibly derive meaning from one message without considering everything else that surrounds 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 to admit to flaws in their skill set and work 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."[23]

Managers' Task as Professionals

As a professional manager, the first task is to recognize and understand 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, as well as their own future.

It also means reading. Managers should read at least one national newspaper each day, including the *Wall Street Journal*, the *New York Time*s, 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 her 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.

In order 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?

Sources: Preston, Julia, *Pink Slips at Disney. But First, Training Foreign Replacements*, The New York Times June 3, 2015, http://www.nytimes.com/2015/06/04/us/last-task-after-layoff-at-disney-train-foreign-replacements.html; Vargas, Rebecca, *EXCLUSIVE: Former Employees Speak Out About Disney's Outsourcing of High-Tech Jobs*, WWSB ABC 7 (Oct. 28, 2015), http://www.mysuncoast.com/news/local/exclusive-former-employees-speak-out-about-disney-s-outsourcing-of/article_d8867148-7d8c-11e5-ae40-fb05081380c1.html; Boyle, Mathew, *Ahead of GOP Debate, Two Ex-Disney Workers Displaced by H1B Foreigners Speak Out for First Time,* Breitbart.com, October 28, 2015, http://www.breitbart.com/big-government/2015/10/28/ahead-of-gop-debate-two-ex-disney-workers-displaced-by-h1b-foreigners-speak-out-for-first-time; Sandra Pedicini, *Tech Workers File Lawsuits Against Disney Over H-1B Visas*, *Orlando Sentinel*, published January 25, 2016, accessed February 6, 2016, available at http://www.orlandosentinel.com/business/os-disney-h1b-visa-lawsuit-20160125-story.html; U.S. Citizenship and Immigration Services, Understanding H-1B Requirements, accessed February 6, 2016, available at https://www.uscis.gov/eir/visa-guide/h-1b-specialty-occupation/

understanding-h-1b-requirements; May, Caroline, Sessions, Durbin: Department Of Labor Has Launched Investigation Into H-1B Abuses, Breitbart.com (June 11, 2015), http://www.breitbart.com/big-government/2015/06/11/sessions-durbin-department-of-labor-has-launched-investigation-into-h-1b-abuses/; Email from Julia Preston, National Immigration Correspondent, The New York Times, to Bryan Shannon, co-author of this case study, dated February 10, 2016.

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?

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.

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.

interaction attentiveness/ interaction involvement A measure of how the receiver of a message is paying close attention and is alert or observant.

noise Anything that interferes with the communication process.

receiver The individual, group, or organization for which information is intended.

Summary of Learning Outcomes

16.1 The Process of Managerial Communication

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.

16.2 Types of Communications in Organizations

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.

16.3 Factors Affecting Communications and the Roles of Managers

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.

16.4 Managerial Communication and Corporate Reputation

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.

16.5 The Major Channels of Management Communication Are Talking, Listening, Reading, and Writing

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 8:30AM east coat time and 4:30PM 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 travelling 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 **Exhibit 16.3**. 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 to 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

reaction, while, in turn, negative expression can generate negative reaction.

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.

Sources: Kramer, Adam; Guillory, Jamie; and Hancock, Jeffrey, "Experimental evidence of massive scale emotional contagion through social networks," *PNAS (Proceedings of the National Academy of Sciences of the United States of America*). March 25, 2014 http://www.pnas.org/content/111/24/8788.full; Laja, Peep. "Useful Value Proposition Examples (and How to Create a Good One), *ConversionXL*, 2015 http://conversionxl.com/value-proposition-examples-how-to-create/; Yadav, Sid. "Facebook - The Complete Biography," Mashable, Aug. 25, 2006. http://mashable.com/2006/08/25/facebook-profile/#orb9TmeYHiqK; Felix, Samantha, "This Is How Facebook Is Tracking Your Internet Activity," *Business Insider*, Sept. 9, 2012 http://www.businessinsider.com/this-is-how-facebook-is-tracking-your-internet-activity-2012-9;



17

Organizational Planning and Controlling

Exhibit 17.1 (Credit: marcusrg/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Introduction

Learning Outcomes

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

1. Understand the importance of planning and why organizations need to plan and control.
2. Outline the planning and controlling processes.
3. Identify different types of plans and control systems employed by organizations.
4. Explain the individual and organizational effects associated with goal setting and planning.
5. Understand how planning occurs in today's organizations.
6. Discuss the impact that control has on organizational members.
7. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.
8. Differentiate between the execution of the planning and controlling activities under control- and involvement-oriented management practices.

EXPLORING MANAGERIAL CAREERS

Elizabeth Charbonnier: ChezPastis.com

ChezPastis.com, the brainchild of Elisabeth Charbonnier, specializes in selling French and other gourmet foods online. Before starting ChezPastis.com, Elisabeth and her partners were professional chefs, and their goal for their company is to make gourmet products available to the world. ChezPastis.com began with a bang, and before long Elisabeth and her partners were too busy to plan for the future and were just trying to survive. After six months, ChezPastis.com experienced growing pains similar to other Internet start-ups.

One of the partners, Zack Fortuna, was online one day trying to order some books for his daughter's birthday. The message he got after attempting to place his order was frustrating: "Sorry! The items you have requested are currently on back order and will not be available for two months." Zack needed the

books in two weeks, not two months. He decided to drive to the bookstore and buy books that were in stock rather than waste time online searching for items that might not be in stock. Suddenly, Zack realized that ChezPastis.com frequently runs out of items as well and this delays customer orders. Perhaps ChezPastis.com's growing pains have something to do with their supply problems.

Question: Are ChezPastis.com's inventory problem attributable to poor planning, poor control, or both? How can Elisabeth, Zack, and the other partners improve the situation?

"If you are good enough, it isn't necessary to set aside time for formal planning. After all, 'planning time' takes away from 'doing time.'" Managers often make such statements, possibly as a way of rationalizing their lack of a formal planning program. These claims are simply not valid—planning *does* influence the effectiveness of the entire organization.

Some years ago, the Calico Candy Company developed and produced a highly successful saltwater taffy Santa Claus. Buoyed by this success, the company planned and manufactured a saltwater taffy Easter Bunny and produced the Santa at Christmas again. This time, however, Calico got stuck with its taffy through faulty planning. Market research clearly showed that consumer preferences had shifted from taffy to chocolate. Rather than plan its products to meet this new preference, the company stayed with what had worked in the past and lost a "ton of money." Yes, planning is important.

Outcome: Zack comes to work the next day excited about his insight. The partners know that inventory has been an ongoing trouble spot but hadn't realized the effect it could be having on potential customers who get frustrated with delayed orders and go elsewhere. After collecting data on customer requests and back orders, the partners discover that they fill customer orders immediately only 50 percent of the time! Jolted by this thunderbolt, the partners decide to hold regular strategic planning meetings where they will view the big picture and plan for the future. The first things they decide to do are install better control systems over their inventory process and collect data on customer online experiences with ChezPastis.com.

Elisabeth proposes setting a goal of never having to tell a customer that requested items are on back order. Zack agrees that this is an admirable goal; however, he thinks they should set a daring but reachable goal of immediately filling customer orders 80 percent of the time. After all, they are a small business in an unpredictable environment, and they don't want to frustrate employees with a potentially impossible goal.

The essence of planning is to see opportunities and threats in the future and, respectively, exploit or combat them as the case may be. . . . Planning is a philosophy, not so much in the literal sense of that word but as an attitude, a way of life.[1]

17.1 Is Planning Important

1. Understand the importance of planning and why organizations need to plan and control.

Planning is the process by which managers establish goals and specify how these goals are to be attained. Plans have two basic components: outcome or goal statements and action statements. **Outcome** or **goal statements** represent the *end* state—the targets and outcomes managers hope to attain. **Action statements** reflect the *means* by which organizations move forward to attain their goals. British prime minister Theresa May is determined to change the way that public companies' boards are comprised by advocating that employees be part of every board. As a part of her action statement, she advocated putting an employee representative in every boardroom, just like Mick Barker, a railway worker since the 1970s, has been quietly helping to shape decision-making as a member of the board of directors at the top of transport giant First Group.[2]

Planning is an intellectual activity.[3] It is difficult to see managers plan, because most of this activity unfolds in

the mind of those doing the planning. While planning, managers have to think about what has to be done, who is going to do it, and how and when they will do it. Planners think both retrospectively (about past events) and prospectively (about future opportunities and impending threats). Planning involves thinking about organizational strengths and weaknesses, as well as making decisions about desired states and ways to achieve them.[4]

Planning for organizational events, whether in the internal or external environment, should be an ongoing process—part of a manager's daily, weekly, and monthly duties and a routine task for all members of high-involvement organizations. Plans should be continually monitored. Managers and other organizational members should check to see if their plans need to be modified to accommodate changing conditions, new information, or new situations that will affect the organization's future. Plans need to be administered with flexibility, as organizations learn about new and changing conditions. Clearly, the Calico Candy Company failed to monitor its plans in this way. By thinking of planning as a continuous activity, methods can be formulated for handling emerging and unforeseen opportunities and threats. Planning is one process through which organizational activity can be given meaning and direction.

Why Should Managers Plan?

Managers have several reasons for formulating plans for themselves, their employees, and various organizational units: (1) to offset uncertainty and change; (2) to focus organizational activity on a set of objectives; (3) to provide a coordinated, systematic road map for future activities; (4) to increase economic efficiency; and (5) to facilitate control by establishing a standard for later activity.

Several forces contribute to the necessity for organizational planning. First, in the internal environment, as organizations become larger and more complex, the task of managing becomes increasingly complex. Planning maps out future activities in relation to other activities in the organization. Second, as the external environment becomes increasingly complex and turbulent, the amount of uncertainty faced by a manager increases. Planning enables organizations to approach their environment systematically.

A study out of Cornell University and Indiana University found that absenteeism cost companies $40 billion per year; the absence of planning was one of the biggest problems businesses face. Firms that follow a clearly defined plan in their day-to-day operations will be more successful than those that do not. The authors state, "organizational controlled consequences that would tend to deter absenteeism." Interestingly, this may be as simple as inspecting the organizational policies that provide the "rules" for employee absenteeism.[5]

Do Managers Really Plan?

Managers should plan formally, but do they? Some observers contend that managers typically are too busy to engage in a regular form of systematic planning. McGill University management professor Henry Mintzberg notes:

> When managers plan, they do so implicitly in the context of daily actions, not in some abstract process reserved for two weeks in the organization's mountain retreat. The plans of the chief executives I have studied seemed to exist only in their heads—as flexible, but often specific, intentions. . . . The job of managing does not breed reflective planners; the manager is a real-time responder to stimuli.[6]

Others disagree. After reviewing a number of studies focused on the degree to which planning and other managerial activities are inherent parts of managing, management professors J. Carroll and J. Gillen state that "the classical management functions of Fayol, Urwick, and others are not folklore as claimed by some contemporary management writers but represent valid abstractions of what managers actually do and what managers should do."[7] Barbara Allen, president of Sunbelt Research Associates, notes that she did a considerable amount of planning before launching her new business. Now that she is operating successfully, she reviews and updates her plans periodically.[8]

Managers often are very busy people. Some act without a systematic plan of action; however, many managers

do plan systematically.[9] For example, many managers develop systematic plans for how their organization will react to a crisis. United Airlines, for example, created a crisis planning group. The group developed United's crisis contingency plan book, which specifies what the airline's crisis management team should do in the event of a crisis. Keri Calagna, principal, Deloitte Risk and Financial Advisory, Deloitte & Touche LLP, comments that up to 20.7% of a firm's value resides in reputation but that CEOs and 77% of board of directors members identified reputation risk as the area about which they felt most vulnerable and that only 39% had a plan to address it.[10]

The question about whether managers really plan and the observation that many times they are simply too busy to retreat to the mountaintop and reflect on where the organization should be going and how it should get there miss the point: there are different types of planning.



Exhibit 17.2 Theresa May The United Kingdom may have voted to leave the European Union (EU), a move known as "Brexit," but if Prime Minister Theresa May gets her way, British companies might look a little more like those in EU countries such as Germany and France. Theresa May favors an overhaul of corporate governance, including appointing employee representatives to boards of directors. (Credit: Arno Mikkor/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

CONCEPT CHECK

1. What is the process where managers establish goals and outline how these goals will be met called?.
2. How do the internal and external environments of the organization and its strengths and weaknesses impact the planning process?
3. Why should managers plan?

17.2 The Planning Process

2. Outline the planning and controlling processes.

Planning is a process. Ideally it is future oriented, comprehensive, systematic, integrated, and negotiated.[11] It involves an extensive search for alternatives and analyzes relevant information, is systematic in nature, and is commonly participative.[12] The planning model described in this section breaks the managerial function of planning into several steps, as shown in **Exhibit 17.3**. Following this step-by-step procedure helps ensure that organizational planning meets these requirements.

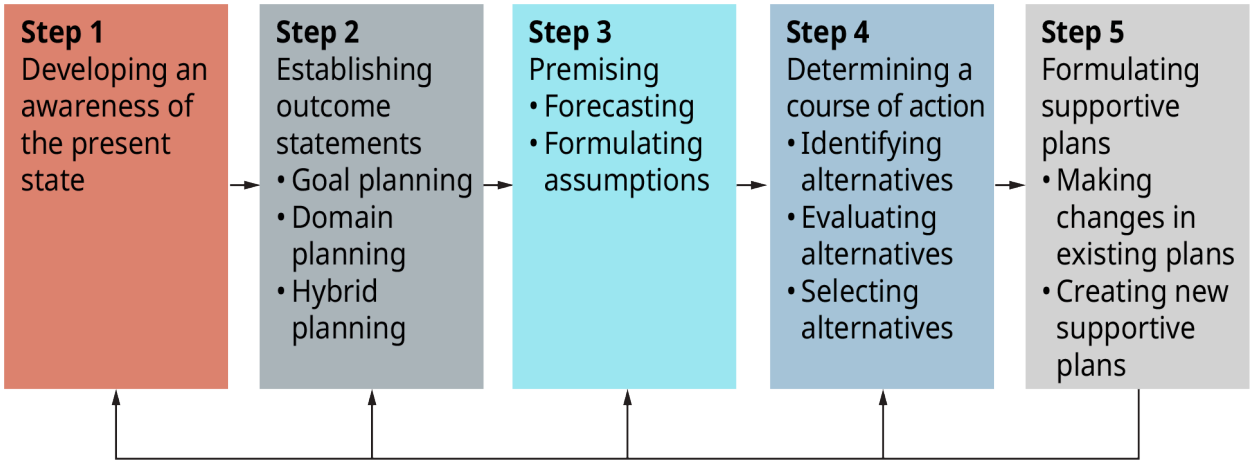

Exhibit 17.3 The Planning Process *Source:* Adapted from H. Koontz and C. O'Donnell, 1972. *Principles of management: An analysis of managerial functions.* New York: McGraw-Hill, 113.

Step 1: Developing an Awareness of the Present State

According to management scholars Harold Koontz and Cyril O'Donnell, the first step in the planning process is awareness.[13] It is at this step that managers build the foundation on which they will develop their plans. This foundation specifies an organization's current status, pinpoints its commitments, recognizes its strengths and weaknesses, and sets forth a vision of the future. Because the past is instrumental in determining where an organization expects to go in the future, managers at this point must understand their organization and its history. It has been said—"The further you look back, the further you can see ahead."[14]

Step 2: Establishing Outcome Statements

The second step in the planning process consists of deciding "where the organization is headed, or is going to end up." Ideally, this involves establishing goals. Just as your goal in this course might be to get a certain grade, managers at various levels in an organization's hierarchy set goals. For example, plans established by a university's marketing department curriculum committee must fit with and support the plans of the department, which contribute to the goals of the business school, whose plans must, in turn, support the goals of the university. Managers therefore develop an elaborate network of organizational plans, such as that shown in **Exhibit 17.4**, to achieve the overall goals of their organization.

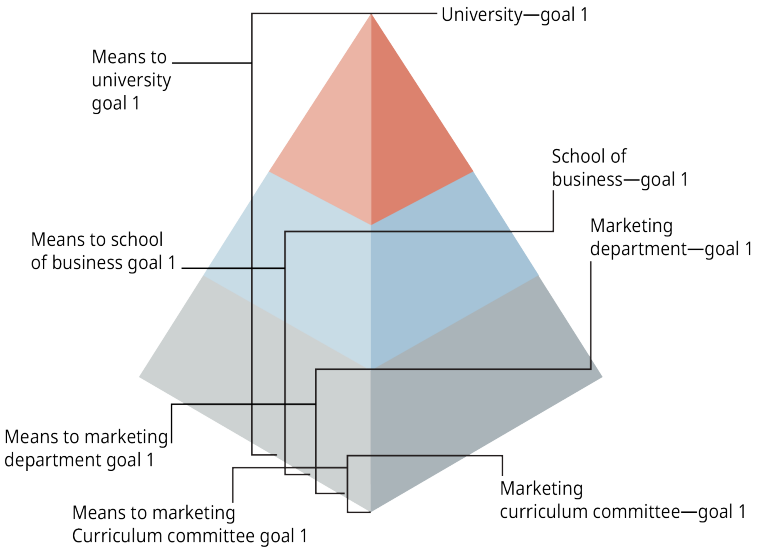

Exhibit 17.4 Network of Organization Plans (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Goal vs. Domain Planning

Outcome statements can be constructed around specific goals or framed in terms of moving in a particular direction toward a viable set of outcomes. In **goal planning**, people set specific goals and then create action statements.[15] For example, freshman Kristin Rude decides that she wants a bachelor of science degree in biochemistry (the goal). She then constructs a four-year academic plan that will help her achieve this goal. Kristin is engaging in goal planning. She first identifies a goal and then develops a course of action to realize her goal.

Another approach to planning is **domain/directional planning**, in which managers develop a course of action that moves an organization toward one identified domain (and therefore away from other domains).[16] Within the chosen domain may lie a number of acceptable and specific goals. For example, high-school senior Neil Marquardt decides that he wants to major in a business-related discipline in college. During the next four years, he will select a variety of courses from the business school curriculum yet never select a major. After selecting courses based on availability and interest, he earns a sufficient number of credits within this chosen domain that enables him to graduate with a major in marketing. Neil never engaged in goal planning, but in the end he will realize one of many acceptable goals within an accepted domain.

The development of the Post-it® product by the 3M Corporation demonstrates how domain planning works. In the research laboratories at 3M, efforts were being made to develop new forms and strengths of cohesive substances. One result was cohesive material with no known value because of its extremely low cohesive level. A 3M division specialist, Arthur L. Fry, frustrated by page markers falling from his hymn book in church, realized that this material, recently developed by Spencer F. Silver, would stick to paper for long periods and could be removed without destroying the paper. Fry experimented with the material as page markers and note pads—out of this came the highly popular and extremely profitable 3M product Scotch Post-it®. Geoff Nicholson, the driving force behind the Post-it® product, comments that rather than get bogged down in the planning process, innovations must be fast-tracked and decisions made whether to continue or move on early during the product development process.[17]



Exhibit 17.5 Post It Notes Post-it® notes, a 3M product, are often used to create and edit shared documents, such as a company strategic plan. How might technology that allows multiple people to share and edit documents such as Word or PowerPoint files affect the sales of Post-it® products? (Credit: Kevin Wen/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Situations in which managers are likely to engage in domain planning include (1) when there is a recognized need for flexibility, (2) when people cannot agree on goals, (3) when an organization's external environment is unstable and highly uncertain, and (4) when an organization is starting up or is in a transitional period. In addition, domain planning is likely to prevail at upper levels in an organization, where managers are

responsible for dealing with the external environment and when task uncertainty is high. Goal planning (formulating goals compatible with the chosen domain) is likely to prevail in the technical core, where there is less uncertainty.

Hybrid Planning

Occasionally, coupling of domain and goal planning occurs, creating a third approach, called **hybrid planning**. In this approach, managers begin with the more general domain planning and commit to moving in a particular direction. As time passes, learning occurs, uncertainty is reduced, preferences sharpen, and managers are able to make the transition to goal planning as they identify increasingly specific targets in the selected domain. Movement from domain planning to goal planning occurs as knowledge accumulates, preferences for a particular goal emerge, and action statements are created.

Consequences of Goal, Domain, and Hybrid Planning

Setting goals not only affects performance directly, but also encourages managers to plan more extensively. That is, once goals are set, people are more likely to think systematically about how they should proceed to realize the goals.[18] When people have vague goals, as in domain planning, they find it difficult to draw up detailed action plans and are therefore less likely to perform effectively. When studying the topic of motivation, you will learn about goal theory. Research suggests that goal planning results in higher levels of performance than does domain planning alone.[19]

Step 3: Premising

In this step of the planning process, managers establish the premises, or assumptions, on which they will build their action statements. The quality and success of any plan depends on the quality of its underlying assumptions. Throughout the planning process, assumptions about future events must be brought to the surface, monitored, and updated.[20]

Managers collect information by scanning their organization's internal and external environments. They use this information to make assumptions about the likelihood of future events. As Kristin considers her four-year pursuit of her biochemistry major, she anticipates that in addition to her savings and funds supplied by her parents, she will need a full-time summer job for two summers in order to cover the cost of her undergraduate education. Thus, she includes finding full-time summer employment between her senior year of high school and her freshman year and between her freshman and sophomore years of college as part of her plan. The other two summers she will devote to an internship and finding postgraduate employment—much to mom and dad's delight! Effective planning skills can be used throughout your life. The plan you develop to pay for and complete your education is an especially important one.

Step 4: Determining a Course of Action (Action Statements)

In this stage of the planning process, managers decide how to move from their current position toward their goal (or toward their domain). They develop an action statement that details what needs to be done, when, how, and by whom. The course of action determines how an organization will get from its current position to its desired future position. Choosing a course of action involves determining alternatives by drawing on research, experimentation, and experience; evaluating alternatives in light of how well each would help the organization reach its goals or approach its desired domain; and selecting a course of action after identifying and carefully considering the merits of each alternative.

Step 5: Formulating Supportive Plans

The planning process seldom stops with the adoption of a general plan. Managers often need to develop one or more supportive or derivative plans to bolster and explain their basic plan. Suppose an organization decides to switch from a 5-day, 40-hour workweek (5/40) to a 4-day, 40-hour workweek (4/40) in an attempt to reduce employee turnover. This major plan requires the creation of a number of supportive plans. Managers might need to develop personnel policies dealing with payment of daily overtime. New administrative plans will be

needed for scheduling meetings, handling phone calls, and dealing with customers and suppliers.

Planning, Implementation, and Controlling

After managers have moved through the five steps of the planning process and have drawn up and implemented specific plans, they must monitor and maintain their plans. Through the controlling function (to be discussed in greater detail later in this chapter), managers observe ongoing human behavior and organizational activity, compare it to the outcome and action statements formulated during the planning process, and take corrective action if they observe unexpected and unwanted deviations. Thus, planning and controlling activities are closely interrelated (planning ➡ controlling ➡ planning . . .). Planning feeds controlling by establishing the standards against which behavior will be evaluated during the controlling process. Monitoring organizational behavior (the control activity) provides managers with input that helps them prepare for the upcoming planning period—it adds meaning to the awareness step of the planning process.

Influenced by total quality management (TQM) and the importance of achieving continuous improvement in the processes used, as well as the goods and services produced, organizations such as IBM-Rochester have linked their planning and controlling activities by adopting the Deming cycle (also known as the Shewhart cycle).

It has been noted on numerous occasions that many organizations that do plan fail to recognize the importance of continuous learning. Their plans are either placed on the shelf and collect dust or are created, implemented, and adhered to without a systematic review and modification process. Frequently, plans are implemented without first measuring where the organization currently stands so that future comparisons and evaluations of the plan's effectiveness cannot be determined. The **Deming cycle**, shown in Exhibit 17.6, helps managers assess the effects of planned action by integrating organizational learning into the planning process. The cycle consists of four key stages: (1) Plan—create the plan using the model discussed earlier. (2) Do—implement the plan. (3) Check—monitor the results of the planned course of action; organizational learning about the effectiveness of the plan occurs at this stage. (4) Act—act on what was learned, modify the plan, and return to the first stage in the cycle, and the cycle begins again as the organization strives for continuous learning and improvement.

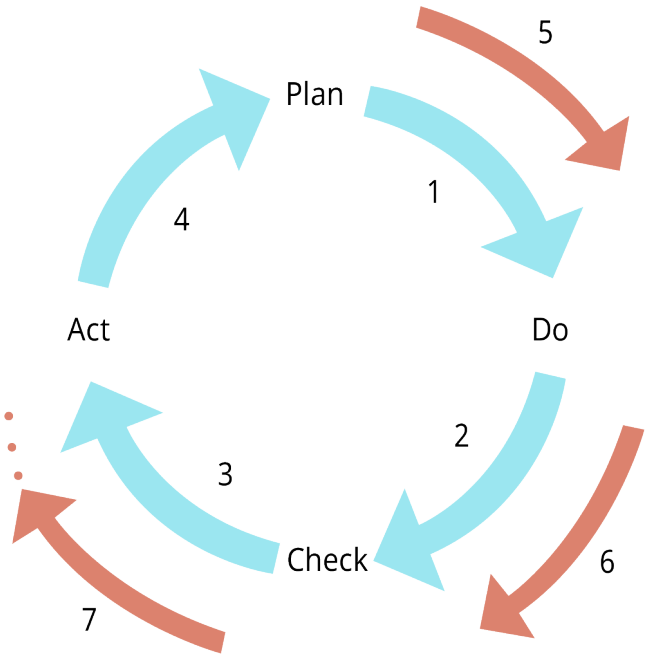

Exhibit 17.6 The Deming (Shewhart) Cycle (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

CONCEPT CHECK

1. What are the five steps in the planning process?
2. What is the difference between goal, domain, and hybrid planning?
3. How are planning, implementation, and controlling related?

17.3 Types of Plans

3. Identify different types of plans and control systems employed by organizations.

From an activity perspective, organizations are relatively complex systems, as they are involved in numerous activities. Many of these activities require management's attention from both a planning and controlling perspective. Managers therefore create different types of plans to guide operations and to monitor and control organizational activities. In this section, we introduce several commonly used plans. The major categories are hierarchical, frequency-of-use (repetitiveness), time-frame, organizational scope, and contingency. Table 17.1 provides a closer look at many types of plans that fall in each of these categories.

Hierarchical Plans

Organizations can be viewed as a three-layer cake, with its three levels of organizational needs. Each of the three levels—institutional, administrative, and technical core—is associated with a particular type of plan. As revealed in Table 17.1, the three types of hierarchical plans are strategic, administrative, and operating (technical core). The three hierarchical plans are interdependent, as they support the fulfillment of the three organizational needs. In the organization's hierarchy, the technical core plans day-to-day operations.

Organizational Plans
Hierarchical Plans
• Strategic plans (institutional)—define the organization's long-term vision; articulate the organization's mission and value statements; define what business the organization is in or hopes to be in; articulate how the organization will integrate itself into its general and task environments. • Administrative plans—specify the allocation of organizational resources to internal units of the organization; address the integration of the institutional level of the organization (for example, vision formulation) with the technical core (vision implementation); address the integration of the diverse units of the organization. • Operating plans (technical core)—cover the day-to-day operations of the organization.
Frequency-of-Use Plans
Standing Plans

Table 17.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Organizational Plans
• Policies—general statements of understanding or intent; guide decision-making, permitting the exercise of some discretion; guide behavior (for example, no employee shall accept favors and/or entertainment from an outside organization that are substantial enough in value to cause undue influence over one's decisions on behalf of the organization). • Rules—guides to action that do not permit discretion in interpretation; specify what is permissible and what is not permissible. • Procedures—like rules, they guide action; specify a series of steps that must be taken in the performance of a particular task.
Single-Use Plans
• Programs—a complex set of policies, rules, and procedures necessary to carry out a course of action. • Projects—specific action plans often created to complete various aspects of a program. • Budgets—plans expressed in numerical terms.
Time-Frame Plans
• Short-, medium-, and long-range plans—differ in the distance into the future projected: Short-range—several hours to a year Medium-range—one to five years Long-range—more than five years
Organizational Scope Plans
• Business/divisional-level plans—focus on one of the organization's businesses (or divisions) and its competitive position. • Unit/functional-level plans—focus on the day-to-day operations of lower-level organization units; marketing, human resources, accounting, and operations plans (production). • Tactical plans—division-level or unit-level plans designed to help an organization accomplish its strategic plans.
Contingency Plans
• Plans created to deal with events that might come to confront the organization (e.g., natural disasters, terrorist threats); alternative courses of action that are to be implemented if events disrupt a planned course of action.

Table 17.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Strategic Plans

Strategic management is that part of the management process concerned with the overall integration of an organization's internal divisions while simultaneously integrating the organization with its external environment. Strategic management formulates and implements tactics that try to match an organization as closely as possible to its task environment for the purpose of meeting its objectives.

Strategic plans address the organization's institutional-level needs. Strategic plans outline a long-term vision for the organization. They specify the organization's reason for being, its strategic objectives, and its operational strategies—the action statements that specify how the organization's strategic goals are to be achieved.

Part of strategic planning involves creating the organization's mission, a statement that specifies an organization's reason for being and answers the question "What business(es) should we undertake?" The mission and the strategic plan are major guiding documents for activities that the organization pursues. Strategic plans have several defining characteristics: They are long-term and position an organization within its task environment; they are pervasive and cover many organizational activities; they integrate, guide, and control activities for the immediate and the long term; and they establish boundaries for managerial decision-making.

Operating plans provide direction and action statements for activities in the organization's technical core. **Administrative plans** work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.

Frequency-of-Use Plans

Another category of plans is frequency-of-use plans. Some plans are used repeatedly; others are used for a single purpose. **Standing plans**, such as rules, policies, and procedures, are designed to cover issues that managers face repeatedly. For example, managers may be concerned about tardiness, a problem that may occur often in the entire work force. These managers might decide to develop a standing policy to be implemented automatically each time an employee is late for work. The procedure invoked under such a standing plan is called a standard operating procedure (SOP).

Single-use plans are developed for unique situations or problems and are usually replaced after one use. Managers generally use three types of single-use plans: programs, projects, and budgets. See **Table 17.1** for a brief description of standing and single-use plans.

Time-Frame Plans

The organization's need to address the future is captured by its time-frame plans. This need to address the future through planning is reflected in short-, medium-, and long-range plans. Given the uniqueness of industries and the different time orientations of societies—study Hofstede's differentiation of cultures around the world in terms of their orientation toward the future—the times captured by short, medium, and long range vary tremendously across organizations of the world. Konosuke Matsushita's 250-year plan, which he developed for the company that bears his name, is not exactly typical of the long-range plans of U.S. companies!

Short-, medium-, and long-range plans differ in more ways than the time they cover. Typically, the further a plan projects into the future, the more uncertainty planners encounter. As a consequence, long-range plans are usually less specific than shorter-range plans. Also, long-range plans are usually less formal, less detailed, and more flexible than short-range plans in order to accommodate such uncertainty. Long-range plans also tend to be more directional in nature.

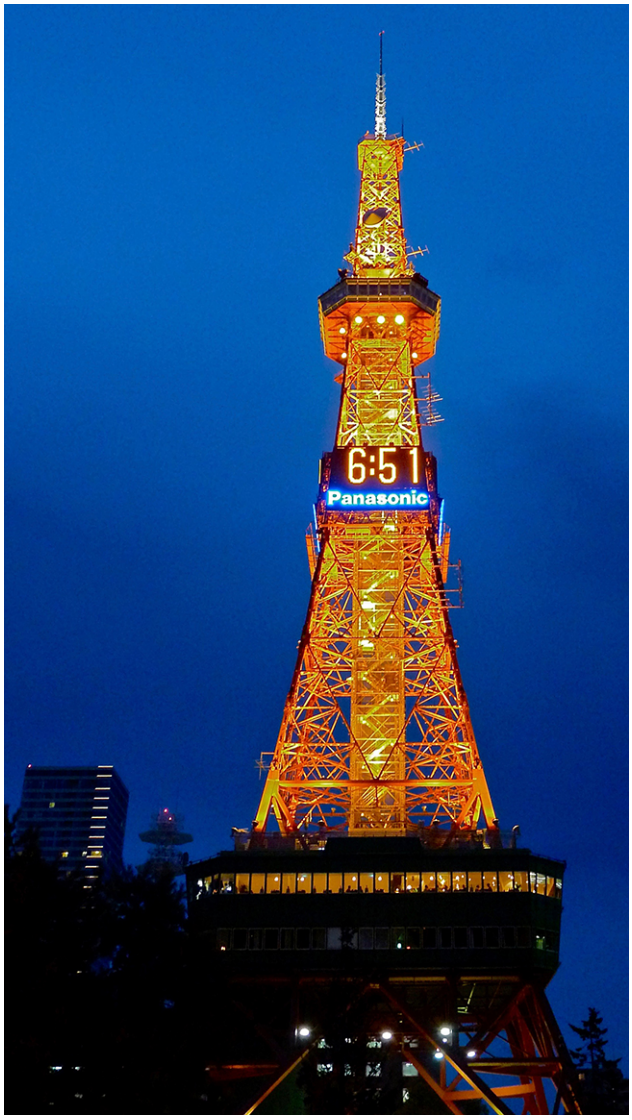

Exhibit 17.7 Tower with digital clock Digital clocks were installed on the Sapporo TV tower, which was donated by Matsushita Electric Industrial Company, a Japanese electronics manufacturer. This installation was suggested by the founder of the company, Konosuke Matsushita, who thought these digital clocks would draw great attention to the tower. Matsushita is revered as a management thought leader in Japan and favored long-term planning, including 250-year plans. (Credit: Arjan Richerter/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Organizational Scope Plans

Plans vary in scope. Some plans focus on an entire organization. For example, the president of the University of Minnesota advanced a plan to make the university one of the top five educational institutions in the United States. This strategic plan focuses on the entire institution. Other plans are narrower in scope and concentrate on a subset of organizational activities or operating units, such as the food services unit of the university. For further insight into organizational scope plans, see Table 17.1.

Contingency Plans

Organizations often engage in contingency planning (also referred to as scenario or “what if” planning). You will recall that the planning process is based on certain premises about what is likely to happen in an organization’s environment. **Contingency plans** are created to deal with what might happen if these assumptions turn out to be wrong. Contingency planning is thus the development of alternative courses of action to be implemented if events disrupt a planned course of action. A contingency plan allows management to act immediately if an unplanned occurrence, such as a strike, boycott, natural disaster, or major economic

shift, renders existing plans inoperable or inappropriate. For example, airlines develop contingency plans to deal with terrorism and air tragedies. Most contingency plans are never implemented, but when needed, they are of crucial importance.

CONCEPT CHECK

1. Define and describe the different types of plans defined in Table 17.1 and how organizations use them.

17.4 Goals or Outcome Statements

4. Explain the individual and organizational effects associated with goal setting and planning.

Creating goals is an inherent part of effective managerial planning. There are two types of organizational goals that are interrelated—official and operational goals.[21] **Official goals** are an organization's general aims as expressed in public statements, in its annual report, and in its charter. One official goal of a university, for example, might be to be "the school of first choice." Official goals are usually ambiguous and oriented toward achieving acceptance by an organization's constituencies. **Operational goals** reflect management's specific intentions. These are the concrete goals that organization members are to pursue.[22] For example, an operational goal for a hospital might be to increase the number of patients treated by 5 percent or to reduce readmission.

The importance of goals is apparent from the purposes they serve. Successful goals (1) guide and direct the efforts of individuals and groups; (2) motivate individuals and groups, thereby affecting their efficiency and effectiveness; (3) influence the nature and content of the planning process; and (4) provide a standard by which to judge and control organizational activity. In short, goals define organizational purpose, motivate accomplishment, and provide a yardstick against which progress can be measured.

Goal Formulation—Where Do Organizational Goals Come From?

There are two different views about how organizational goals are formulated. The first view focuses on an organization and its external environment. You will recall that there are many stakeholders (e.g., owners, employees, managers) who have a vested interest in the organization. Organizational goals emerge as managers try to maintain the delicate balance between their organization's needs and those of its external environment.[23] The second view concentrates on the set of dynamics in the organization's internal environment. Internally, an organization is made up of many individuals, coalitions, and groups who continually interact to meet their own interests and needs.[24] They bargain, trade, and negotiate, and through these political processes, organizational goals eventually emerge.

Neither approach to goal formulation can alone provide for long-term organizational success. Goals must fit an organization into its external environment while satisfying the needs of external constituencies. In addition, goals must enable an organization's internal components to work in harmony. For example, the goals of its marketing department need to mesh with those of its production and finance departments. The challenge for managers is to balance these forces and preserve the organization.

Multiple Goals and the Goal Hierarchy

Consistent with the two views of goal emergence, Peter Drucker offers the perspective that organizations must simultaneously pursue multiple goals. A well-known management scholar, consultant, and writer, Drucker believes that to achieve organizational success, managers must try to achieve multiple goals simultaneously—namely, market standing, innovation, productivity, profitability; physical and financial resources, manager performance and development, employee performance and attitude, and public

responsibility.[25] Reflecting his concerns, the Hewlett-Packard Corporation has established the seven corporate goals listed in Table 17.2. Sometimes units within organizations may pursue goals that actually conflict with the goals of other internal units. The innovation goal of a research and development department, for example, might conflict with the production department's goal of efficiency.[26] Managers must strive to integrate the network of goals and resolve internal conflicts when they arise.

Hewlett-Packard's Corporate Goals
Profit. To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives.
Customers. To provide products and services of the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.
Field of Interest. To enter new fields only when the ideas we have, together with our technical, manufacturing and marketing skills, assure that we can make a needed and profitable contribution to the field.
Growth. To let our growth be limited only by our profits and our ability to develop and produce technical products that satisfy real customer needs.
People. To help our own people share in the company's success, which they make possible: to provide job security based on their performance, to recognize their individual achievements, and to help them gain a sense of satisfaction and accomplishment from their work.
Management. To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.
Citizenship. To honor our obligations to society by being an economic, intellectual and social asset to each nation and each community in which we operate.

Source: Adapted from Y. K. Shetty. 1979. New look at corporate goals. *California Management Review* 22(2): 71–79.

Table 17.2

Broad organizational goals, such as productivity, innovation, and profitability, are likely to be broken into subgoals at various organizational levels. The complexities posed by many interrelated systems of goals and major plans can be illustrated by a **goal hierarchy**.[27] Thus, an organization sets organizational-level, divisional-level, departmental-level, and job-related goals. In the process, managers must make sure that lower-level goals combine to achieve higher-level goals.

CONCEPT CHECK

1. What is the difference between official and operational goals?
2. How do multiple goals fit into a goal hierarchy?

17.5 Formal Organizational Planning in Practice

5. Understand how planning occurs in today's organizations.

Studies indicate that, in the 1950s, approximately 8.3 percent of all major U.S. firms (1 out of every 12) employed a full-time long-range planner. By the late 1960s, 83 percent of major U.S. firms used long-range planning. Today it is estimated that nearly all U.S. corporations with sales over $100 million prepare formal long-range plans.[28] Most formal plans extend five years into the future, and about 20 percent extend at least ten years.

Encouraging Planning

In spite of the advantages to be gained by planning, many managers resist it. Some feel that there is not enough time to plan or that it is too complicated and costs too much. Others worry about the possible consequences of failing to reach the goals they set. Instead of preplanning, sometimes referred to as blueprint planning (that is, formulating outcome and action statements before moving forward), many managers simply fail to plan or at best engage in in-process planning (they read events and think about the next step just before acting). In-process planning works extremely well when individuals have a sense of what it is that they want to achieve and can improvise as they move forward in a sea of uncertainty and turbulence. This is much like skilled hockey players relying on their instincts, reading the defense, and improvising as they move up the ice and toward the opponent's net. This process often works better than attempting to implement a detailed preplan, as often characterizes plays in football.

In situations where we want to encourage preplanning, certain techniques facilitate the process:

- Develop an organizational climate that encourages planning.
- Top managers support lower-level managers' planning activities—for example, by providing such resources as personnel, computers, and funds—and serve as role models through their own planning activities.
- Train people in planning.
- Create a reward system that encourages and supports planning activity and carefully avoids punishment for failure to achieve newly set goals.
- Use plans once they are created.

In order for managers to invest the time and energy needed to overcome resistance to planning, they must be convinced that planning does in fact pay off.

Does Planning Really Pay Off?

Managers of organizations in complex and unstable environments may find it difficult to develop meaningful plans, yet it is precisely conditions of environmental complexity and instability that produce the greatest need for a good set of organizational plans. Yet the question remains, does planning really pay off?

We know from our earlier discussion that setting goals is an important part of the planning process. Today, much is known about what characterizes effective individual goals. (We discuss this issue in greater detail later in this chapter.) Although group and organizational goals have been studied less, it is probably safe to assume that most of our knowledge about individual goals also applies to group and organizational goals. The research suggests that effective organizational goals should (1) be difficult but reachable with effort, (2) be specific and clearly identify what is desired, (3) be accepted by and have the commitment of those who will help achieve them, (4) be developed by employees if such participation will improve the quality of the goals and their acceptance, and (5) be monitored for progress regularly.

While the evidence is not abundant, studies suggest that firms that engage in planning are more financially successful than those that do not.[29] For example, one study reports that the median return on investment for

a five-year period is 17.1 percent for organizations engaged in strategic planning, versus 5.9 percent for those that do not.[30] Similarly, of 70 large commercial banks, those that had strategic planning systems outperformed those that did not.[31]

Although planning clearly has observable benefits, it can be expensive. The financial commitment can be large for organizations with a formal planning staff. Even so, research suggests that planning is warranted.

The Location of the Planning Activity

Classical management thinking advocates a separation of "planning" and "doing." According to this school of thought, managers plan for technical core employees and formulate most of the plans for the upper levels of the organization, with little participation from lower-level managers and workers. In contrast, behavioral management theorists suggest involving organization members in drawing up plans that affect them. Implementation of a management-by-objectives program (to be discussed later in this chapter), for example, is one means by which this participative planning can be realized. Researchers at the Tavistock Institute in England promote the idea of self-managed work groups as a means of expanding the level of employee involvement. According to their socio-technical model, work groups assume a major role in planning (as well as in organizing, directing, and controlling) the work assigned to them. Many organizations—for example, the John Lewis Partnership, Volvo, and Motorola—have had successful experiences with employee involvement in planning and controlling activities.[32]

Planning Specialists

To keep pace with organizational complexity, technological sophistication, and environmental uncertainty, many organizations use planning specialists. Professional planners develop organizational plans and help managers plan. Boeing and Ford are among the many organizations with professional planning staffs. Planning specialists at United Airlines developed United's crisis management plan.

Organizations have planning specialists and planning departments in place for a variety of reasons. These specialized roles have emerged because planning is time-consuming and complex and requires more attention than line managers can provide. In rapidly changing environments, planning becomes even more complex and often necessitates the development of contingency plans, once again demanding time for research and special planning skills. At times, effective planning requires an objectivity that managers and employees with vested interests in a particular set of organizational activities cannot provide.

A planning staff's goals are varied. Their primary responsibility is to serve as planning advisors to top management and to assist lower-level line managers in developing plans for achieving their many and varied organizational objectives. Frequently, they coordinate the complex array of plans created for the various levels within an organization. Finally, a planning staff provides encouragement, support, and skill for developing formal organizational plans.

MANAGING CHANGE



Using Technology for a More Efficient Business

The need to control costs has been around since trade, buying and selling, began. Each new technology creates new possibilities in production and cost reduction. Recent technology isn't any different. Leaps in connectivity and data management are creating as many start-ups and new ways of identifying and solving problems.

Innovu uses new technology to help small and start-up business control the costs of their health benefits. Most small companies and start-ups are self-insured; that is, the company pays any covered employee medical bills or finances any wellness programs directly. According to Diane Hess, the executive director of

the Central Penn Business Group on Health, employers account for 30 percent of the $2.9 trillion in health care spending in the United States, and workers' compensation cost employers $91 billion in 2014. These costs included $31.4 billion for medical and $30.9 in cash payments (Hess 2016). Innovu mines employee claims to find trends and also provides data on costs due to absenteeism, disability, and workers' compensation (Mamula 2017). As employers move to wellness programs to improve productivity and reduce medical costs, Innovu helps employers "make sure there are improvements to justify the expenses"(Hess 2016 n.p.).

In a similar vein, Marsh & McLennan Agency Michigan LLC is moving from simply providing insurance and generic "wellness programs" to helping companies focus on improving employees' overall well-being. While traditional wellness programs focus on physical health to improve productivity, the emerging trend is to help employees with family, social, and financial issues as well. The most comprehensive program from Marsh & McLennan is its MMA Michigan's Wellbeing University, which works to expand traditional wellness programs into nontraditional support services. The comprehensive approach of the program helps midsize employers "attract and retain talent, encourage employee satisfaction and reduce absenteeism." The move beyond simple wellness is a move toward investing in employees. Bret Jackson, president of Economic Alliance for Michigan, said, "If you have a happy and healthy employee, productivity increases" (Greene 2017 n.p.).

Branch Messenger is a novel idea to solve employee scheduling. Employees are able to view schedules, cover shifts, and ask for time off, all from an app on their phone. It integrates with existing company systems to allow data analysis, but perhaps more importantly, it allows employees to connect. The start-up's program has been adopted by large companies, such as Target, McDonald's, and Walgreens, to allow employees to swap shifts simply by using an app on their cell phones. This process streamlines the process of swapping shifts by allowing employees to handle most of the leg work, "bridg[ing] the communication gap between workers and the companies that employ them." The application is free to employees and runs on both iOS and Android devices. It can also generate digital schedules from paper schedules and create messaging channels that are workplace specific. Moving past simple shift flexibility, the application allows businesses to tap into an "on-demand" workforce that is more elastic. It also allows enterprises to "extend the value of existing workforce management systems without the need to switch costs" (Takahasi 2017 n.p.)

Allison Harden, a shift manager for a Pizza Hut in Tampa, Florida, likes the added connectivity of the program. "The messaging feature and the ability to share pictures and posts makes it really easy to stay connected with them," Allison says. "It's a way that I can do it outside a social network. Not everyone has Facebook and stuff like that—so it's good and work-friendly, safe for work" (Branch Messenger 2017 n.p.).

"Safe for work" can carry connotations of "oversharing" on social media, but during Hurricane Irma, Allison and her crew relied on Branch Messenger for storm preparation, allowing the manager to post a safety checklist and update shifts. Then during the storm itself and after, drivers were able to tell each other which gas stations actually had gas, who still had electricity, and who was safe (Branch Messenger 2017).

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Questions:

1. What ethical problems could surface with data mining as it applies to employee health records?
2. What security risks would a company need to consider when utilizing smartphone apps for work?



Exhibit 17.8 Shelf of tide pods Procter & Gamble, the maker of Tide Pods, has faced two issues with its popular new laundry product. Early after its introduction, reports came in that 180 children had visited hospitals after ingesting the colorful pods thinking that they were candy. P&G quickly reacted by making tamper-proof packaging making it more difficult for children to access, adding a nontoxic flavor that would dissuade children from swallowing the pods, and initiating a product information campaign aimed at informing parents about the dangers—overall, a well-orchestrated contingency plan. In 2017, however, P&G began receiving reports about teenagers intentionally swallowing the product in a "pods challenge" that went viral on social media. Whenever notified, P&G decided to contact the teens directly and contact tech companies such as Facebook and YouTube to remove these posts and videos but did not publicize this, fearing that it would only cause more teens to accept the challenge or challenge others. (Credit: Mike Mozart/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

CONCEPT CHECK

1. How do today's organizations approach planning?
2. Does planning pay off for today's organizations?
3. Which people in the organization should be involved in planning, and what are their roles?

17.6 Employees' Responses to Planning

6. Discuss the impact that control has on organizational members.

Managers, of course, want their employees to work hard. However, effort alone is not enough; it must be directed toward the appropriate target and executed in a proper manner. The question we explore here is, do planning, goal setting, and the development of action statements have a favorable impact on employee motivation, performance, and job satisfaction?

We turn to goal theory for our answer. Research provides us with a clear and unequivocal picture of the effects of setting goals for organizational members. Goal theory specifies that certain types of goals motivate employee behavior and thereby contribute to the level of employee performance. Goal theory, while somewhat narrow in scope, is the most completely supported theory of motivation.[33] You have learned or will learn about the implications of goal setting as a fundamental part of the planning process and as a standard for the exercise of control when studying motivation. For goals to be effective, they must be difficult, specific, and accepted by the employee, and they must be met with feedback from management. Manufacturers often use production goals to motivate employees.

Characteristics of Goals That Motivate Performance

Goal theory (and the research related to it) highlights several important goal attributes—goal difficulty, goal specificity, goal acceptance and commitment, and goal feedback. As **Exhibit 17.9** shows, workers who have a goal, even if it is quite general, usually perform better than those with no goals. Yet certain types of goals are more effective than others. Two primary characteristics of goals that enhance their motivating potential are goal specificity and goal difficulty.[34] With regard to goal specificity, a goal that states "improve your performance" or "do your best" is generally not very effective because it is too general. Weyerhaeuser, for example, observed that its truck drivers hauling logs significantly increased their performance level when they were instructed to load their trucks to 94 percent of legal weight capacity, as opposed to simply "doing their best." The drivers found the specific goal to be motivating, and they often competed with one another to achieve the prescribed goal. In the first nine months following the introduction of the 94 percent target, Weyerhaeuser estimated its savings to be approximately $250,000.

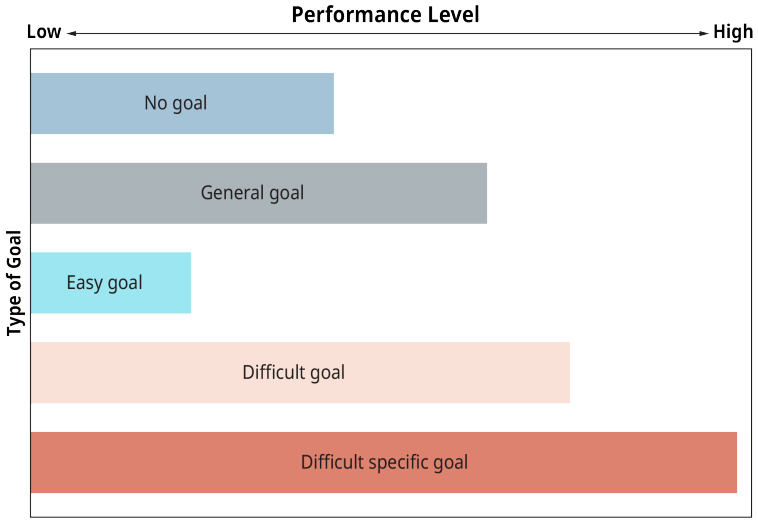

Exhibit 17.9 The Effects of Goals on Performance (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The second component of an effective goal is goal difficulty. People with difficult goals perform better than those with easy goals (note the third and fourth bars in **Exhibit 17.9**). If goals are perceived as too difficult or impossible, however, they lose their motivating effectiveness. Ideally, goals will be both specific and difficult. Thus, setting specific and challenging goals contributes more to planning effectiveness and organizational performance than does working under "no-goal" or "do your best" goal conditions.[35]

Even a goal that is both difficult and specific, however, is not going to be effective unless it is accepted by the person who is expected to achieve it.[36] Goal acceptance is the degree to which people accept a goal as their own ("I agree that this report must be finished by 5 p.m.").[37] Goal commitment is more inclusive, referring to

our level of attachment to or determination to reach a goal ("I *want* to get that report done on time").[38] Goals sometimes fail to motivate people when managers assign them without making sure that workers have accepted or committed to the goals. **Exhibit 17.10** summarizes the conditions necessary to maximize goal-directed effort (motivation 5 direction 1 intensity), a major contributor to subsequent performance, while **Exhibit 17.11** summarizes the three sets of factors that facilitate goal commitment.[39]

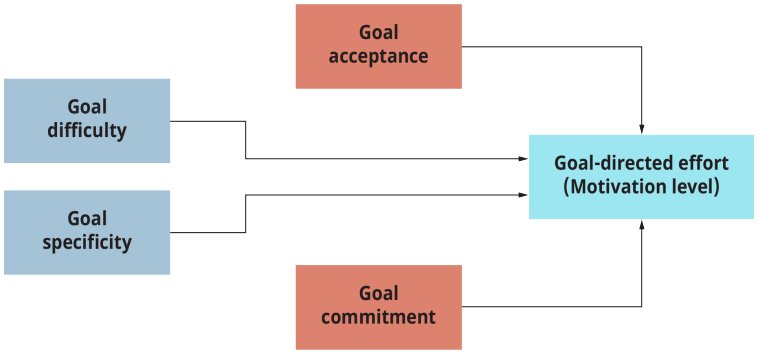

Exhibit 17.10 A Model of Goal Setting

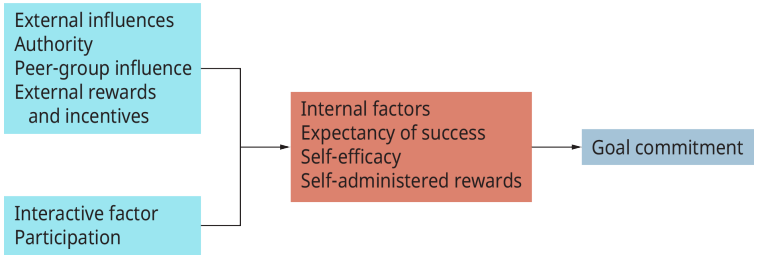

Exhibit 17.11 Determinants of Goal Commitment Source: Adapted from E. A. Locke, G. P. Latham, and M. Erez. 1988. The determinants of goal commitment. *Academy of Management Review* 13:28. Copyright 1998 by Academy of Management. Reproduced with permission of Academy of Management in the format Textbook via Copyright Clearance Center; and from E. Erez and P. C. Earley. 1987. Comparative analysis of goal setting across cultures. *Journal of Applied Psychology* 72:658–665.

Goal feedback is the last important goal attribute. Goal feedback provides us with knowledge about the results of our efforts. This information can come from a variety of sources, such as supervisors, peers, subordinates, customers, inanimate performance monitoring systems, and self-assessment. Regardless of the source, the right kind of feedback serves two important functions: directional and effort. Directionally, good feedback tells employees whether they are on the right path and on target or suggests the need for redirection. In addition, it should provide information that suggests the adequacy or inadequacy of the employee's level of effort. Thus, feedback is of critical importance!

The Negative Side of Goals

There is, however, a negative side to goal setting. Total quality management (TQM) pioneer W. Edwards Deming fears that goals tend to narrow the performer's vision and invite people to slack off once the goal is achieved. TQM is also oriented more toward process (means) than toward success (goals, outcomes). Organizational learning and continuous improvement, a central component of TQM, is oriented toward continually finding problems in the production process that when eliminated will result in performance increases.[40] Performance goals, on the other hand, generally focus the performer's attention on successfully achieving a specified level of accomplishment at some future point.

Evidence also reveals a negative side to an employee's commitment to difficult goals. When organizational members are strongly committed to achieving difficult goals, their involvement in acts of good organizational citizenship is likely to decline.[41] This negative relationship is unfortunate because organizations operating in highly turbulent, competitive, and uncertain environments are extremely fragile social systems. They need the commitment and the sense of ownership that propel organizational members to spontaneously engage in behaviors that are not specified in their job descriptions but that are important to the organization's success

and well-being.

There are several other negative effects associated with goals: The methods and means created to accomplish organizational goals may themselves become the goal (means-ends inversion). Organizational goals may be in conflict with personal or societal goals. Goals that are too specific may inhibit creativity and innovation. Ambiguous goals may fail to provide adequate direction, and goals and reward systems are often incompatible. For example, universities commonly encourage faculty members to be better teachers, but their reward systems primarily encourage good research.[42]

Goal Setting and Employee Job Satisfaction

The statement "goal setting enhances job satisfaction" is not exactly accurate.[43] The relationship between goal setting and planning and job satisfaction is somewhat more complex. Goal setting, and therefore planning, impacts job satisfaction by working through the employee's level of performance and level of aspiration. Job satisfaction (or dissatisfaction) is most likely determined by the level of performance and not by the goals that have been set.

An employee's affective reaction to performance is determined not by the performance level itself but by the level of performance in relation to his aspiration level.[44] Job satisfaction, therefore, stems from the employee's evaluation of his actual performance in comparison to his aspiration level (or performance goal). In cases (see **Exhibit 17.12**) where performance reaches or passes the level aspired to, a positive emotion (job satisfaction) is likely to be produced. Performance that fails to reach aspirations causes a negative emotion (job dissatisfaction). In addition, if performance is valued by the employee because of the extrinsic rewards tied to it, high performance will create job satisfaction only if achieving the performance goal leads to the receipt of these valued extrinsic rewards.[45] Thus, goal setting is indirectly and contingently related to job satisfaction. If goal setting contributes to employees reaching their performance aspirations and/or the outcomes that are associated with that performance, job satisfaction is a likely by-product.

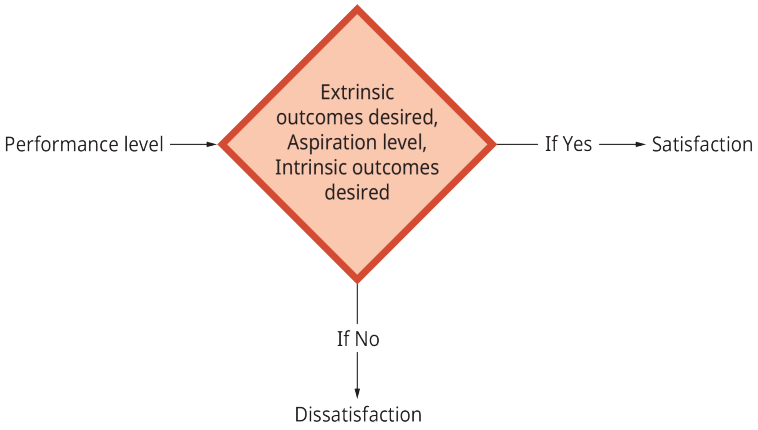

Exhibit 17.12 Performance, Aspiration Level, and Satisfaction (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Managing through Goal Setting

What can managers do to motivate employees through goal setting? First, it is important to encourage goal acceptance and commitment. This can be accomplished by working with organizational members to set difficult, specific, and reasonable goals and to make certain that members perceive them as reasonable. If necessary, provide training and other support needed to make the goals attainable. Offer feedback that lets people know when they are approaching the goal. Avoid using threats. Feedback that criticizes without providing insight into ways to contribute to performance improvements is both frustrating and unlikely to be effective. One of Deming's concerns about goal setting is that it creates fear in employees—fear of the failure to reach the goal. He sees fear as a serious disease that contributes to poor organizational performance.[46] Instead, a positive, success-oriented approach is almost always more effective. If and when negative feedback

is needed to correct errors, a manager's criticisms of an employee should be credible, constructive, and objective. In addition, it is important to recall that feedback that simply criticizes, without providing insight into how to make the needed corrections, will produce few if any positive results. Finally, keep in mind that, whereas goal acceptance occurs before people work on a task and can be encouraged through promises of reward, goal commitment can be nurtured throughout the performance period as workers receive rewards for progress.

Encourage the development of work-group norms that contribute to goal commitment. Use legitimate authority to encourage the setting of specific and difficult goals. Stimulate workers to develop a sense of ownership in goals, thus producing goal acceptance and commitment. There are those who believe goal acceptance and commitment can be nurtured when workers come together as members of a family working toward the common goal of proving their worth.[47]

Controlling as an Organizational Activity

A few years ago, the Duluth Police Department found itself struggling with employee morale. The summer had passed, and the department discovered that it had allowed too much vacation time given the volume of summer activity facing the department. As it developed its staffing plans for the upcoming summer, it would have to grant fewer requests for summer vacations. Management soon learned that there would actually be more requests for summer vacation than the previous summer. A conflict between management and the police union appeared inevitable.

The department turned to creative problem solving. In the process, it came up with the idea of moving from a seven-day week to an eight-day week. Under the old schedule, a police officer worked a traditional five days a week, eight hours a day, 40 hours, with two days off each week. Under the new schedule, officers would work 12 hours a day and 48 hours a week. In addition, officers would work four days and then have four days off. This would in effect give officers half the upcoming summer off without taking a single day of vacation. The plan was endorsed by both the police union and the city council. Following the endorsement of the new staffing plan, the department developed a plan for monitoring the effectiveness of this new schedule and collected baseline data so that subsequent assessment of the schedule could be compared to previous work schedules.[48]

In January, the new compressed work schedule was implemented. This was accompanied by a control system that would monitor the effectiveness of the new schedule. The department was particularly concerned about the impact of the schedule on stress levels, job satisfaction, and the overall effectiveness of its policing function. That is, would the 12-hour workday negatively affect performance? Periodically during the next couple of years, the department monitored the consequences of its new work schedule. There were several positive results. The level of stress appeared to decline along with the increases in hours worked and leisure time satisfaction, without any negative performance effects. Now, several years later, there is virtually no desire to return to the old, more traditional work schedule.

In effective organizations, the activities of planning and controlling are intricately interwoven. For each plan deemed important to the functioning of the organization, a system to monitor the plan's effectiveness must be designed and implemented. In the remainder of this chapter, we explore the nature of control, the control process, and its effects on the organization and its members.

Controlling and the Control Process

Controlling is a managing activity. **Controlling** is defined as the process of monitoring and evaluating organizational effectiveness and initiating the actions needed to maintain or improve effectiveness. Thus, managers who engage in the controlling activity watch, evaluate, and when needed, suggest corrective action.

Like the managerial functions of planning, organizing, and directing, controlling is a complex activity that is performed at many organizational levels. Upper-level managers, for example, monitor their organization's

overall strategic plans, which can be implemented only if middle-level managers control the organization's divisional and departmental plans, which, in turn, rely on lower-level managers' control of groups and individual employees (see our earlier discussion of the goal hierarchy).

The Need for Control

Although there is a continual and universal need for control in organizations, the importance, amount, and type of control vary across organizational situations. Probably the most important influence on the nature of an organization's control systems is the amount of environmental change and complexity it faces.

Organizations that operate with relatively stable external environments usually need to change very little, so managers eventually are able to control their organizations by using a set of routine procedures. With greater levels of environmental change and the accompanying uncertainty, however, controlling requires continual attention from managers. Routines and rigid control systems are simply not adequate for such conditions.

Environmental complexity also affects the nature of control systems. Simple environments contain a limited number of highly similar components that are relatively easy to control through common sets of rules and procedures. The same bureaucratic control system, for example, can be used at most branch offices of a large bank. As complexity increases through organizational growth, product diversification, and so on, managers' needs for up-to-date information and coordination among organizational activities intensify. The complexity that calls for increased control, however, also requires open, organic systems that can respond quickly and effectively to complex environments. In such complicated situations, organizations often specify the development of flexible systems as a means goal: "To allow us to manage the complexities of our organization, we must remain flexible and open." Other control activities shift to ends goals, such as "We want to increase market share 10 percent in each of our divisions." Flexibility allows substantial choice as to how ends goals will be met: "Each division may decide how to achieve its 10 percent increase in market share." Exhibit 17.13 shows the level of control organizations need under different environmental conditions.

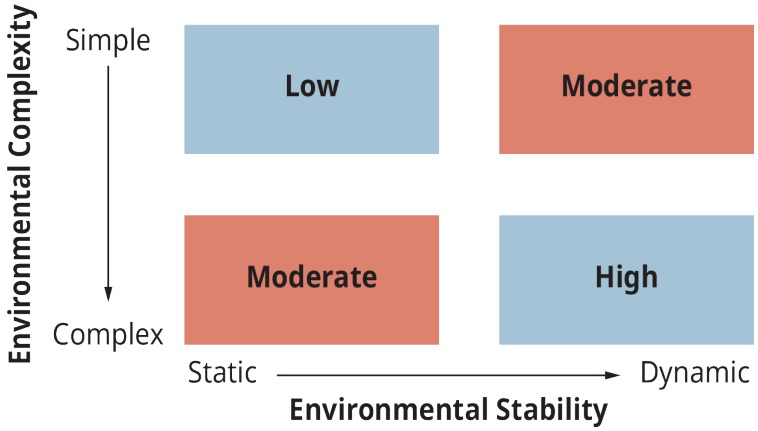

Exhibit 17.13 Need for Control (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A Control Model

In essence, control affects every part of an organization. Among some of the major targets of the organization's control efforts are the resources it receives, the output it generates, its environmental relationships, its organizational processes, and all managerial activities. Especially important targets of control include the functional areas of operations, accounting, marketing, finance, and human resources.

Traditional control models (see Exhibit 17.14) suggest that controlling is a four-step process.

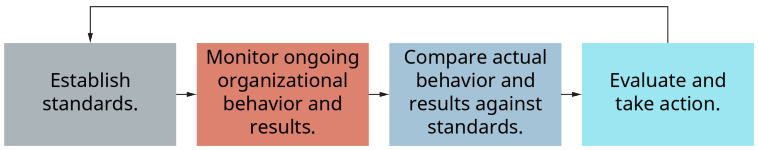

Exhibit 17.14 The Traditional Control Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

1. *Establish standards*. Standards are the ends and means goals established during the planning process; thus, planning and controlling are intricately interwoven. Planning provides the basis for the control process by providing the standards of performance against which managers compare organizational activities. Subsequently, the information generated as a part of the control process (see the subsequent steps in the control model) provides important input into the next planning cycle.
2. *Monitor ongoing organizational behavior and results*. After determining what should be measured, by whom, when, and how, an assessment of what has actually taken place is made.
3. *Compare actual behavior and results against standards*. Ongoing behavior is compared to standards. This assessment involves comparing actual organizational accomplishments relative to planned ends (what an organization is trying to accomplish) and means (how an organization intended for actions to unfold). The outcome of this comparison provides managers with the information they will evaluate in the final step.
4. *Evaluate and take action*. Using their comparative information, managers form conclusions about the relationships found between expectations and reality and then decide whether to maintain the status quo, change the standard, or take corrective action.

Variations in Control Systems

Although all good control systems follow the process described above, this doesn't mean that all control systems are identical. Control systems differ in terms of the degree to which they are self-managing, as opposed to externally managed, and by the point in the process at which control is exercised.

Cybernetic and Noncybernetic Systems

Control systems differ in the amount of outside attention required for them to operate effectively. Systems using **cybernetic control** are based on self-regulating procedures that automatically detect and correct deviations from planned activities and effectiveness levels. Few organizational control systems are totally cybernetic, but some come close. The control system for a coal-fired electrical generating station at Detroit Edison, for example, uses computers to monitor the flow of pulverized coal into the burning chamber. The computers speed up or reduce the flow as necessary to maintain adequate fuel supplies.

Merely automating a work system does not necessarily mean that the control system is cybernetic. The drone submarine sent to explore and photograph the sunken *Titanic* was fully automated, but humans on the surface monitored the effectiveness of the sub's operations and its adherence to the planned mission. To be classified as a cybernetic system, a work system must have built-in automatic control capabilities, although the built-in control need not be machine-based. A group of workers who control their own activities without outside assistance constitute a cybernetic system.

Control systems that are operated completely independently from the work system itself involve **noncybernetic control**. They rely on external monitoring systems in much the same way that a manufacturing company uses a separate quality assurance department to monitor and enforce quality standards rather than allowing production crews to perform this activity. Cybernetic control systems automatically detect and correct deviations, but automating a control system does not mean it is cybernetic. This technician is adjusting the mixture in the vat, so this system is not self-regulating and thus is not cybernetic.

Time Perspectives

Organizations can introduce the control activity at three stages in the work process: prior to, during, or after the performance of a work activity.[49] In practice, most managers use a **hybrid control system** that incorporates control at each of these intervals so that managers can prepare for a job, guide its progress, and

assess its results.

Managers use **precontrols** (or preaction controls) to prevent deviation from a desired plan of action before work actually begins. For example, Butch Ledworowski, owner of Lil' America Building Contractors, inspects all construction materials to see that they meet industry standards. Managers can use two types of **concurrent controls** (steering and screening control) to prevent deviation from the planned course of action while work is in progress. Steering controls are reactive concurrent controls; they occur after work has begun but before it is completed. At Lil' America, for instance, Butch visits each construction site and watches his carpenters, offering advice and instruction as they work. Screening controls (also referred to as yes/no, go/no-go controls) are preventive concurrent controls. As activity at a critical stage is completed, managers use screening controls to assess work performed to that point and to judge whether progress is adequate. If it is, a yes decision is made to proceed to the next stage. At Lil' America, for example, Butch always inspects carpentry work after walls have been framed. Unless he approves the work, electricians cannot begin wiring the structure.

Managers use **postaction controls** after the product or service is complete to examine the output. After each remodeling job, Butch assesses the work to determine whether it meets specifications, was completed on time, and came in at or under budget. Postaction controls play an important role in future planning, but their primary function is to provide feedback by describing the degree to which previous activities have succeeded.

Characteristics of Effective Control Systems

Successful control systems have certain common characteristics. First, a good control system follows the prescriptions in the control model (see **Exhibit 17.14**) and adequately addresses each organizational target. Next, to the extent possible, an effective control system takes a hybrid approach so that precontrol, concurrent, and postaction control systems can be used to monitor and correct activities at all points in an organization's operations. Other characteristics of a good control system include its treatment of information, its appropriateness, and its practicality.[50]

The control process itself and, certainly, all effective control systems are based on information. Without good information, managers cannot assess whether ends and means goals are met. They cannot determine the relationship between them or provide feedback to planners. To be effective, information must be accurate, objective, timely, and distributed to organization members who need it. High-involvement organizations work to make sure that virtually all organizational information is accessible by any employee who needs it in order to make quality decisions. Oticon, a Danish manufacturer of hearing aids, for example, scans all company communications and places them in its information system that all employees can access.



Exhibit 17.15 Oticon building As a management control procedure, Oticon, the Danish manufacturer of hearing aids, scans all company communications and places them in its information system that all employees can access. (Credit: News Oresund/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Another characteristic of a good control system is its focus on issues of importance to the organization. Managers who develop control procedures for virtually all work activities and outcomes waste resources and,

as will be discussed later in this chapter, risk creating a control system that produces negative feelings and reactions.

A final characteristic of a good control system is its practicality. Something that works well for another organization or looks wonderful in print still has to fit *your* organization to work well there. Some practical considerations to look for in a control system include feasibility, flexibility, the likelihood that organization members will accept it, and the ease with which the system can be integrated with planning activities.

The Impact of Control on Organizational Members

Thus far, you have been learning about the importance of the controlling function. Consider now what the controlling function does for—or to—the organization's members. If designed well, control systems have many positive effects both for organizations and for the people who work in them (see **Table 17.3**).[51] Unfortunately, sometimes control systems can produce a number of negative effects.

The Impact of Control on Organization Members
Potential Positive Effects of Control
Clarifies expectations
Reduces ambiguity
Provides feedback
Facilitates goal setting
Enhances satisfaction
Enhances performance
Potential Negative Effects of Control
Consumes resources
Creates feelings of frustration and helplessness
Creates red tape
Creates inappropriate goals
Fosters inappropriate behavior
Decreases satisfaction
Increases absenteeism

Table 17.3 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The Impact of Control on Organization Members
Increases turnover
Creates stress

Table 17.3 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Positive Effects

Organizational control systems can provide many positive effects for organization members in terms of motivation, performance, and satisfaction. This occurs by providing adequate structure, appropriate feedback, and effective goal-setting programs.

When workers want clarification of what they are expected to do, a leader can improve both their performance and satisfaction by providing structure. The guidance provided by both precontrol and concurrent control systems can likewise be received favorably. Another potential and related benefit for employees with an uncertainty avoidance or low tolerance for ambiguity personality is that the structure of a good control system reduces the uncertainty of a work situation.

A good control system also provides constructive feedback. Most employees react quite favorably to the timely provision of accurate feedback about their effectiveness.[52] Feedback helps workers correct ineffective behaviors. Perhaps more importantly, feedback can be very rewarding. People who have a need to succeed (individuals with a high need for achievement) are gratified when feedback tells them that they are, in fact, succeeding. Feedback can improve job performance if workers use it to adjust their goals, approach, or effort levels appropriately. Both concurrent and postaction controls provide employees with feedback about the appropriateness of their behavior and the degree to which their work is producing successful results.

You have already seen that goal setting can be an important contributor to effective management. A good control system is very useful for identifying appropriate goals. Consider the control system used by the sales company where Maria Castro works. It specifies an expected sales approach (means goal) that helps her work toward a specific, difficult sales goal (ends goal). Precontrols help her understand how to achieve the desired sales level by providing such means goals as specific sales calls to make and promotional specials to offer. Concurrent controls and postcontrols provide feedback that helps Maria monitor her progress. The combined effects of goal setting and feedback about goal progress are particularly powerful.

Negative Effects

Unfortunately, control systems don’t always function well. Excessive controls are a waste of money and energy. Donald Pemble, for example, needs a larger travel budget because he must personally inspect bridges under his new control system. His inspectors spend the time they could have used to inspect bridges in logging entries, painting numbers, and griping about the unfairness of the situation. Not only do excessive controls waste money because they fail to enhance effectiveness, but they can also create additional problems. For example, Shannon and her coworkers have changed from good corporate citizens who kept accurate records and conducted comprehensive inspections into harried workers who falsify log entries. Worse, unsuspecting motorists travel over what might be unsafe bridges.

The vast amount of paperwork and documentation called for by an excessive control system can also cause frustration and helplessness. The red tape created by many universities’ control systems, for example, wastes students’ time. Standing in lines for hours, they wait to pay dorm fees, purchase meal tickets, rent parking spaces, pay tuition, and register for classes. Their frustration and dissatisfaction are mirrored by many university employees who question the competence, the reasonableness, and perhaps even the intelligence of

supervisors who insist on maintaining excessive control.

Another dysfunctional result of poor control systems can be seen in their effect on goal-setting programs. Whereas a good control system can help design and monitor valuable goal-setting programs, a poor control system can accomplish quite the opposite. A control system focused on unreasonable ends and means goals can motivate workers to establish inappropriate individual goals. For instance, the ends goal Donald Pemble established of having all bridges inspected within two years was unreachable, and his monthly inspection quotas (means goals) were unobtainable. Donald's insistence on maintaining these inappropriate goals was evident in his reactions when the inspectors failed to meet them. Consequently, Shannon and her coworkers focused on preserving their jobs as a primary goal, rather than on conducting quality inspections.

In addition to encouraging the formation of inappropriate goals, poor control systems emphasize and reward behaviors that, although not necessarily inappropriate, may hinder more productive behavior. Managers who concentrate on workers' attendance, for example, may not promote such desirable behaviors as creativity, cooperation, and team building.[53] Although there is nothing wrong with encouraging attendance, a control system that fosters attendance (by punishing tardiness) because it is easier to measure than creativity encourages rigid, uncreative behavior (on the part of employees who are almost always at work). An advertising agency that controls attendance but not creativity, for example, would soon be in serious trouble.

Even when control systems help identify appropriate goals and encourage appropriate behavior, rigid adherence to narrow goals can create problems. A large number of specific, concrete goals, for example, can inhibit creativity. The vast amount of time organization members must spend tending to concrete goals leaves them little time or energy to create. It is not only creativity that suffers, however. Every minute used taking attendance in a classroom is one less minute available for teaching. Every hour a police officer spends completing paperwork is one less hour available for public service. Managers should use only the goals they need, no more.

The Need for Personal Control

Organizations clearly have a need to control their members and operations, but individuals also have a need for personal control, a need to believe that they have the "ability to effect a change, in a desired direction, on the environment."[54] Sometimes organizations, through their structures and management processes, make people feel they have too little control. For example, managers can execute the control function by designing and demanding strict adherence to organizational rules and standard operating procedures. Colleges and universities, for example, tell students which classes they are allowed to take and when, what grades they have to maintain, how to behave outside the classroom, and so on. Companies tell employees when to come to work, how many hours to work, what to wear, when to take breaks, how to perform their jobs, and many other things. The challenge facing managers is to strike a balance between the amount of control their organization needs and the amount of personal control needed by its members. Studies suggests that, when this balance is reached, both the satisfaction and performance of organization members can be enhanced.[55] In addition, evidence reveals that a number of other organizationally undesirable consequences can result from low or less than desired levels of personal control, such as withdrawal and health-related effects (stress, frustration, and depression).[56]

Finding the optimal balance between organizational and personal control is not an easy task, however, because most employees desire more personal control than their organizations allow. People will strive to gain greater control "in spite of (and frequently because of) the barriers and constraints the organization places on the attainment of personal control."[57] Repeated failures to gain personal control may cause workers to develop what has been called learned helplessness.[58] People who learn that they are helpless to influence their work environment are likely to be the source of low productivity, low quality, high absenteeism, dissatisfaction, and turnover. They tend to react with depression, anxiety, stress, frustration, hostility, anger, and alienation. Furthermore, once helplessness has been learned, people often continue to behave helplessly, even if the environment changes to permit them greater control. Managers must thus prevent employees

from developing learned helplessness because reversing it is very difficult. They should allow workers to control the aspects of their work lives that they can adequately control and use only the necessary amount of organizational control.

In Search of Balance

At this point, it might seem that managers should just accede to workers' persistent demands for greater control. Research shows, however, that indiscriminately giving employees larger amounts of control actually causes performance to suffer if such control exceeds their capacity to use it.[59]

If a control system that is too excessive does not work, and if giving workers all of the personal control they desire is not effective, what do managers do to achieve the proper balance? First, people need to possess personal control; therefore, give them the amount of control they are able to handle. Second, make certain that workers given control believe they can use it effectively. Help them translate their effort into successful performance. Third, recognize that organizational control systems influence the personal control perceptions of organizational members. These, in turn, change behavior and attitudes.

By interviewing and/or surveying employees, managers can learn more about employees' needs for control. Through organizational scans, managers can determine the amount and location of control already existing in the organization, as well as the areas needing control. The objective then becomes one of achieving the best possible match between employees and their work environment.

CONCEPT CHECK

1. How is goal theory used in the planning process?
2. What are the organizational downsides to goals?
3. How is goal setting tied to job satisfaction and performance?

17.7 Management by Objectives: A Planning and Control Technique

7. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.

When people are personally committed to their organization's plans, those plans are more likely to be accomplished. This truism is the philosophy underlying management by objectives.

Management by objectives (MBO) is a philosophy of management, a planning and controlling technique, and an employee-involvement program.[60] As a management philosophy, MBO stems from the human resource model and Theory Y's assumption that employees are capable of self-direction and self- control. MBO also is anchored in Maslow's need theory. The reasoning is that employee involvement in the planning and control processes provides opportunities for the employee to immerse the self in work-related activities, to experience work as more meaningful, and to satisfy higher-order needs (such as self-esteem), which leads to increased motivation and job performance (see **Exhibit 17.16**). It is hypothesized that, through involvement, employee commitment to a planned course of action will be enhanced and job satisfaction will be increased.

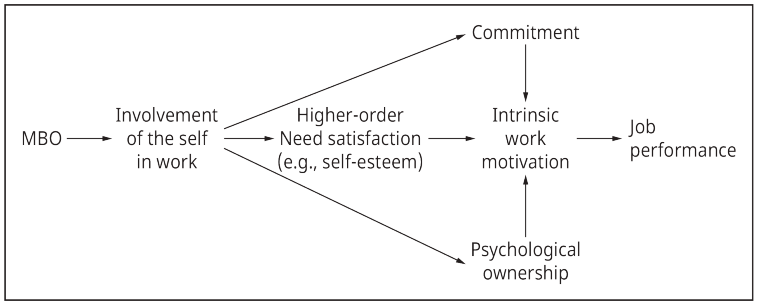

Exhibit 17.16 MBO and Its Effect on Employees (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Although there are many variations in the practice of MBO, it is basically a process by which an organization's goals, plans, and control systems are defined through collaboration between managers and their employees. Together they identify common goals, define the results expected from each individual, and use these measurements to guide the operation of their unit and to assess individual contributions.[61] In this process, the knowledge and skills of many organizational members are used. Rather than managers telling workers "These are your goals"—the approach of classical management philosophy—managers ask workers to join them in deciding what their goals should be.

After an acceptable set of goals has been established for each employee through a give-and-take, collaborative process, employees play a major role in developing an action plan for achieving these goals. In the final stage in the MBO process, employees develop control processes, monitor their own performance, and recommend corrections if unplanned deviations occur. At this stage, the entire process begins again. **Exhibit 17.17** depicts the major stages of the MBO process.

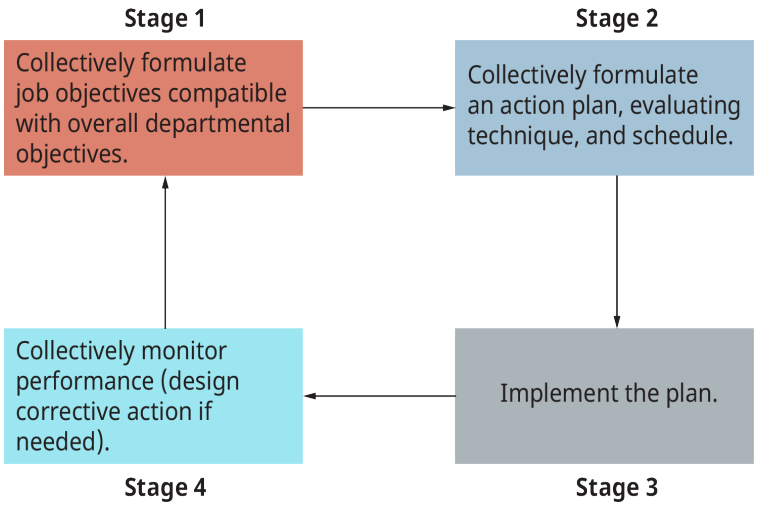

Exhibit 17.17 The Management by Objective (MBO) Process (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The Theory of MBO

MBO has the potential to enhance organizational effectiveness. The following four major components of the MBO process are believed to contribute to its effectiveness: (1) setting specific goals; (2) setting realistic and acceptable goals; (3) joint participation in goal setting, planning, and controlling; and (4) feedback.[62] First, as we saw earlier, employees working with goals outperform employees working without goals. Second, it is assumed that participation contributes to the setting of realistic goals for which there is likely to be goal acceptance and commitment. Setting realistic and acceptable goals is an important precondition for successful outcomes, especially if the goals are difficult and challenging in nature. Finally, feedback plays an important role. It is only through feedback that employees learn whether they should sustain or redirect their efforts in order to reach their goal, and it is only through feedback that they learn whether or not they are investing sufficient effort.

Thus, from a theoretical perspective, there are several reasons why MBO should produce a positive impact on employee performance, motivation, commitment, and job satisfaction. In the next section, we briefly look at what the research tells us about the effectiveness of MBO programs.

The Evidence

In both the public and private sectors, MBO is a widely employed management tool. A recent review of the research on MBO provides us with a clear and consistent view of the effects of these programs. In the 70 cases studied by Robert Rodgers and John Hunter, 68 showed increased productivity gains, and only 2 showed losses.[63] In addition, the increases in performance were significant. Rodgers and Hunter report that the mean increase exceeded 40 percent.

While the results are generally positive in nature, differences in performance effects appear to be associated with the level of top management commitment. In those cases where top management is emotionally, intellectually (that is, top management espouses the value and importance of MBO), and behaviorally (top management actually uses MBO themselves) committed, the performance effects tend to be the strongest. The weakest MBO effects appear when top management does very little to "talk the value/importance of MBO" and they don't use the system themselves, even as they implement it for others.[64] This evidence tells us that "the processes" used to implement MBO may render a potentially effective program ineffective. Thus, not only should managers pay attention to the strategies used to facilitate planning and controlling (like MBO), they should also be concerned with how they go about implementing the plans. MBO requires top management commitment, and it should be initiated from the top down.[65]

Research shows that an MBO program can play a meaningful role in achieving commitment to a course of action and improving performance. In fact, research clearly documents instances where MBO programs have increased organizational effectiveness. Still, there have been failures. After reviewing 185 studies of MBO programs, one researcher concluded that they are effective under some circumstances but not all.[66] For example, MBO tends to be more effective in the short term (less than two years), in the private sector, and in organizations removed from direct contact with customers. These factors also affect the success of an MBO program:

- The intensity of upper-level managers' commitment: Half-hearted commitment to an MBO system is associated with a higher failure rate.
- The time element: Is there enough time for employees to learn how to participate in an MBO process, that is, to learn how to set meaningful goals, develop good action statements, and develop effective monitoring systems? Is there enough time for employees to learn how to assume responsibility in a new context? Is there enough time for employees and managers to collaborate in a joint planning and controlling process?
- The legitimacy of the system: Is it integrated into an overall philosophy of management? Or does it seem like a gimmick to seduce employees into being more productive?
- The integration of employees' goals: Are goals for each employee integrated well enough into the goals of their larger work unit?

To be truly effective over the long haul, MBO programs probably need to be coupled with some type of gainsharing program (that is, programs whereby organizations share some of the financial gains accrued from the ideas, productivity improvements, and cost savings that stem from employee participation). Based on his extensive observation of involvement-oriented organizations, Edward E. Lawler III notes that information, knowledge, power, and rewards are four key components of an effective and sustained high involvement.[67] Typically, MBO systems don't provide mechanisms through which employees share in the economic gains that may accrue to the organization as a result of their expanded role and responsibility. In light of the conditions that influence the effectiveness of MBO programs, management is challenged to provide an appropriate context for the design and maintenance of an effective MBO system.

CONCEPT CHECK

1. What is management by objectives?

17.8 The Control- and Involvement-Oriented Approaches to Planning and Controlling

8. Differentiate between the execution of the planning and controlling activities under control- and involvement-oriented management practices.

Planning and controlling are approached with distinctive differences under control-oriented and involvement-oriented approaches to management. In the mechanistic organization, both activities tend to be lodged with management in the organizational hierarchy, often above the point in the organization where the plans are being carried out. The hierarchy plays an active role in both the planning and controlling process, and the employee is often a passive player carrying out the planning directives and the target of the control activity.

The organic organization, with its involvement-oriented management practices, places the employee as an active player in both the planning and controlling activity. Management's role becomes one of a consultant, facilitator, enabler, philosopher, teacher, coach, and resource provider as employees take on active roles in planning and controlling and in assuming responsibility for the execution of both activities.

Upper-level managers assume responsibility for planning and controlling their units while employees assume the right and responsibility for planning and controlling at their job level. As upper-level managers carry out their planning and controlling activities, they do so by soliciting input from those below them in the organizational hierarchy.

Systems such as MBO are much more likely to characterize the planning and controlling process in involvement-oriented organizations than in control-oriented organizations. Control in high-involvement organizations is diffused through many groups and is commonly focused on task accomplishment and overcoming obstacles, with a de-emphasis on fixing blame with a particular individual for performance failures. In many control-oriented management systems, the reins of control are firmly held by the hierarchy, and the activities of individuals are carefully controlled. Performance failures, therefore, tend to become focused on the individual who fails to perform.

Finally, mechanistic organizations are more likely to create large planning departments and to centralize the planning function with specialists. As organizations confront increasing environmental or technology-induced uncertainty, rapid environmental change, and turbulence, planning and controlling move closer to the point in the organization where the plans are implemented and carried out on a day-to-day basis. In place of hierarchy-based control, organizations rely more on professional employees and groups of employees to control their own actions as they execute organizational plans.



Exhibit 17.18 Maersk Line ship A new blockchain solution from IBM and Maersk will help manage and track the paper trail of tens of millions of shipping containers across the world by digitizing the supply chain process. (Credit: Kees Torn/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

MANAGING CHANGE

Blockchain and Managing Currency Fluctuations

When a business goes from being local, even if local is defined as a whole country, to being a global business, a whole new set of constraints is presented and must be controlled and planned. Traditionally, currency fluctuations can be one of the more interesting if not daunting elements of global business. Modern technology, however, has taken that challenge one step further.

The impact of currency fluctuations on profitability is discussed in economics, finance, and various accounting texts. What currency should be used to buy inventory? To sell inventory? How do puts and calls mitigate currency fluctuations? Is the added expense worth covering the potential loss? These are all questions businesses must consider when moving into a global market. When Tata Consultancy Services, India's largest software services exporter, reported first quarter results that were below expectations in the first quarter of 2017, much of the blame was laid on currency fluctuations, which accounted for 80 basis points of the drop in profitability (Alawadhi 2017).

But starting in 2009, financial transactions, including global financial transactions, became a little more complicated. Or did they? Bitcoin emerged in 2009 from an unknown source only known as Satoshi Nakamoto (The Economist Explains 2015). Built on what is called blockchain technology, Bitcoin and other cryptocurrencies (jargon for digital assets that are secured by cryptography) are a technological unknown in the future of exchange and financing. The technology behind blockchain and the resulting assets is complicated but not necessary to understand the potential effects of the technology. Effectively, Bitcoin is a "peer-to-peer electronic cash system that uses a distributed ledger to bypass central control systems for transactions" (Pepijn 2017). As peer-to-peer transactions, cryptocurrencies bypass the normal channels, such as banks and credit card processors. Theoretically, this lowers transaction costs for both the buyer and the seller. Blockchain, which can include assets beyond currency, also allows firms to raise funds directly from investors, bypassing investment bankers and venture capitalists. According to the *Financial Post*, "High levels of encryption protect the transaction by validating the parties involved and by preventing hacking, erasure or amendments" (Francis 2017).

Bitcoin uses blockchain technology to maintain a record of its currency ecosystem. The viability of blockchain technology as a thing in itself should not be confused with Bitcoin's price volatility, which has seen its price increase (and decrease) by several orders of magnitude. Shady bitcoin exchanges and a shifting regulatory landscape, a result of governments attempting to regulate the very concept of a means

of exchange, have produced enormous swings up and down (Crypto Investor 2017).

But however volatile the new currencies, blockchain technology is seeing other, relatively sane applications. Isabel Cooke at Barclays has already used "distributed ledger technology," or blockchain technology, to process a trade finance transaction in the real world: "Our pilot trade brought the sign-off time from ten days to four hours. It reduced costs, added transparency, decreased risk and looked to improve the customer experience" (Why blockchain is 'difficult and exciting' 2017). With an immutable, public ledger to work from, "Creating a really clear audit trail across organisations provides real value – whether that's with land registration or trade finance. If we have a shared view of data on ledgers, we can then build business logic on top of that, and that can apply to interest rates swaps or smart contracts within the investment bank" (Crypto Investor 2017).

So are blockchains and cryptocurrencies the wave of the future or just a modern financial bubble or threat to global financial security? Some industry writers say that the decentralization and lower costs of the technology are necessary and will launch even more industries (Pepijn 2017). Even governments and central banks are looking at the potential benefits and costs savings of an electronic currency. According to investment banker Alex Tapscott, if the Bank of England replaced 30 percent of the traditional British currency with digital money, he thinks it would add 3 percent to British GDP. The expectation is that digital currency would lower consumer prices and increase sellers' profits. And the encryption technology would prevent counterfeiting, fraud, or tampering (Francis 2017).

In a perfect world, exchanges in a global currency, such as the blockchain-based crypotocurrencies, could sidestep currency fluctuations. In the real world, however, the wild value fluctuations of cryptocurrencies mean blockchain technology has a way to go before delivering on that possibility, if it ever does.

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Questions

1. What other applications can you see for blockchain technology? Would they reduce costs?
2. What drawbacks or potentials risks do you see in blockchain technology?
3. Do you think blockchain technology could be used to offset currency fluctuations? Would this likely increase or decrease the risk?
4. Why would governments be suspicious of cryptocurrencies and consider regulating or outlawing them? Have any governments done so to date?

CONCEPT CHECK

1. Describe the execution of the planning and controlling activities under control- and involvement-oriented management practices.

Key Terms

action statements The means by which an organization moves forward to attain its goals.
administrative plans Plans that work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.
concurrent controls Controls intended to prevent deviation from a planned course of action while work is in progress.
contingency plans Plans that deal with alternative courses of action.
controlling Monitoring the behavior of organizational members and the effectiveness of the organization itself to determine whether organizational goals are being achieved and taking corrective action if necessary.
cybernetic control Self-regulating control procedures.
Deming cycle A planning model directed toward attaining continuous improvement by integrating organizational learning into the planning process (plan, do, check, act).
domain/directional planning The development of a course of action that moves an organization toward one domain or direction (and, therefore, away from other domains or directions).
goal hierarchy The interrelationship among an organization's job-, department-, divisional-, and organizational-level goals.
goal planning Development of action statements to move toward the attainment of a specific goal.
hybrid control system Control system that exercises control prior to, during, and after the performance of a work activity.
hybrid planning The coupling of domain and goal planning.
management by objectives (MBO) A philosophy of management, a planning and controlling technique, and an employee involvement program.
noncybernetic control Control systems that operate independently from the work system that is being monitored; a monitoring system that is external to the target of control.
official goals The aims of an organization that are expressed in highly abstract and general terms, generally employed for the organization's external constituents.
operating plans Direction and action statements for activities in the organization's technical core.
operational goals The aims of an organization that reflect management's specific intentions.
outcome or goal statements End states—the targets and outcomes that managers hope to attain.
planning The process by which managers establish goals and specify how these goals are to be attained.
postaction controls Controls employed after a product or service is complete.
precontrols Controls designed to prevent deviation from a desired plan of action before work actually begins.
single-use plans Plans developed for unique situations or problems and one-time use.
standing plans Rules, policies, and procedures about how to deal with issues that managers face repeatedly.
strategic plans Hierarchical plans that address an organization's institutional-level needs and attempt to position it advantageously within its task environment.

Summary of Learning Outcomes

17.1 Is Planning Important

1. Understand the importance of planning and why organizations need to plan and control.

Planning is the process through which managers establish goals and detail how these goals will be attained.

17.2 The Planning Process

2. Outline the planning and controlling processes.

There are five major stages in the planning process. First, an organization establishes its preplanning

foundation, which reviews past events and describes the current situation. In the second step, the organization sets forth goals based on the preplanning foundation. In the third step, managers forecast what is likely to happen in the organization's internal and external environments in order to develop alternative courses of action. Then, managers identify possible courses of action for meeting their objectives, evaluate each alternative, and select a course of action. Finally, planners develop the supportive plans necessary to accomplish the organization's major plan of action. Once implemented, that plan is monitored and controlled so that it meets the goals established in the second step.

17.3 Types of Plans

3. Identify different types of plans and control systems employed by organizations.

Managers create many types of plans based on hierarchical level, frequency of use, time frame, and organizational scope. Contingency plans to be used in case of unexpected events or wrong assumptions are critical for effective management in highly turbulent environments.

17.4 Goals or Outcome Statements

4. Explain the individual and organizational effects associated with goal setting and planning.

Goal development is an important part of the planning process. Goals developed for employees, for departments, and for entire organizations greatly enhance organizational effectiveness. Evidence reveals that performance is higher when organizations, as well as individuals, operate under difficult (but attainable), specific goals.

17.5 Formal Organizational Planning in Practice

5. Understand how planning occurs in today's organizations.

Plans reduce uncertainty and risk, focus attention on goals, and enhance understanding of the external environment. Although most major organizations engage in formal planning, many managers fail to plan appropriately. Lack of time, uncertainty about the future, and fear of failure are among the reasons given by managers for their failure to plan.

17.6 Employees' Responses to Planning

6. Discuss the impact that control has on organizational members.

The primary purposes of the controlling function are to monitor the extent to which an organization's plans are being followed and their effectiveness and to identify when and where it is necessary to take corrective action. To accomplish these ambitious tasks, managers construct control systems that touch most aspects of an organization's functional areas, its relationship with the external and internal environments, and its relationships across different hierarchical levels.

The control process consists of four steps. In Steps 1 and 2, managers create standards and monitor ongoing organizational behavior. In Step 3, they examine the degree to which ongoing activity is consistent with their goals and means objectives and the relationship between the two. In Step 4, managers develop prescriptions to correct problems, to maintain strengths, and to provide feedback to an organization's planners.

Whereas all control systems have the same general purposes, they differ in their specifics. Some are self-managing cybernetic systems; noncybernetic systems require regular external supervision to be effective. Other variations in control systems include the point at which control activities are applied: before the work has begun (precontrols), while work is in progress (concurrent controls), and after work has been completed (postaction controls). A hybrid control system engages a variety of control activities at many points in time.

Although there are variations in control systems, all good systems have characteristics that enable them to work well in a given organization. Managers evaluating a control system might thus gauge its adequacy in providing accurate, timely, objective information to appropriate people in the organization. They also should

examine whether the system focuses on the most critical aspects of their organization's conditions in a feasible, flexible manner that will be accepted by organizational members. Because of the importance of the information it provides, a good control system should also be integrated with planning activities.

Any control system can produce both positive and negative effects. If it is well designed, a control system provides needed structure and feedback, facilitates the development and execution of effective goal setting, reduces ambiguity, and clarifies expectations. Inappropriate control systems, however, can cause frustration, dissatisfaction, and poor performance. Being aware of a control system's potential effects on organization members helps managers capitalize on its positive aspects, reduce the impact of negative effects, and promote workers' acceptance of the system.

The effort to maintain control is not restricted to managers. All employees have a need for personal control, a need that sometimes conflicts with their organization's need to maintain control. To achieve effectiveness, managers must balance the control needs of both the organization and its members.

17.7 Management by Objectives: A Planning and Control Technique

7. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.

Management by objectives (MBO), with its emphasis on goal setting, participation, and feedback, frequently contributes to increased employee goal commitment, motivation, and performance. If performance matches the employee's aspirations, job satisfaction is likely to be an important by-product of the organization's planning and controlling activities.

17.8 The Control- and Involvement-Oriented Approaches to Planning and Controlling

8. Differentiate between the execution of the planning and controlling activities under control- and involvement-oriented management practices.

Planning and controlling are approached with distinctive differences under control-oriented and involvement-oriented approaches to management. In the mechanistic organization, both activities tend to be lodged with management in the organizational hierarchy, often above the point in the organization where the plans are being carried out. The hierarchy plays an active role in both the planning and controlling process, and the employee is often a passive player carrying out the planning directives and the target of the control activity.

Chapter Review Questions

1. Define managerial planning and controlling.
2. Discuss the relationship between the two managerial functions of planning and controlling.
3. Identify and briefly describe each stage in the planning and controlling processes.
4. There are five types of plans discussed in this chapter, compare and contrast three of these.
5. What are multiple goals? What is a goal hierarchy? How are these concepts related?
6. Briefly describe the two views of the goal formulation process, and explain how they differ.
7. Describe the MBO process, the philosophy behind it, and its relationship with performance.
8. Distinguish between cybernetic and noncybernetic control and between pre, concurrent, and postaction control systems.
9. Identify and discuss three positive and three negative effects often associated with control systems.
10. How does the desire for personal control affect managers, and how can they balance it with organizational control systems?

Management Skills Application Exercises

1. Use the tools described in this chapter to write a plan that will help you set goals, plans on how to achieve

them (e.g., achieve an A average in all of my core concentration courses and A– in all courses I am taking). Also account for personal time and other activities you are involved in and goals that you have for these, such as keeping physically fit, etc.

2. You are managing a small manufacturing operation that involved the final assembly of Children sippy cups. There are two components to the sippy cup: the cup, a lid, and a straw as well as the box that will hold the product. You have 2 direct reports who you can assign to assemble the product. You also have a dotted-line report with the purchasing agent for the company that procures the components of the product (a dotted-line report is where one employee must work for and report to more than one manager) as well as the boxes and material needed (e.g., plastic that is used on the shrink-wrapping machine) to complete the product for sale. You have been given the following metrics.

   a. You have been given a goal of producing 2,300 units per week.
   b. It takes 1 minute to assemble the sippy cup.
   c. It takes 45 seconds to place the sippy cup in the box and shrink-wrap the product.
   d. It takes 15 seconds to examine the product for meeting quality, and you expect that 99.5% of the products will meet or exceed expectations.
   e. The employees work for 8 hours per day.

   Write up a plan that has achievable goals for your two direct reports and your dotted-line report. Also prepare a memo to your supervisor about how you plan on achieving your goal.

3. You and another student will engage in a role-play exercise. One will be the manager, and one will be an employee who is not happy with the aggressive goals that he has been given. After a 10-minute discussion, you both report on what was resolved, what was not, and how this would affect job satisfaction and performance for the employee.

Managerial Decision Exercises

1. You are a manager, and your direct report is complaining about not being involved in the planning process. How do you respond?
2. You are a sales manager and have reviewed the monthly sales goals and conclude that the targets can't be achieved without additional hires or paying employees overtime to secure additional orders. Also, you think that the product could have an 8% price increase without hindering sales units. You review the operational plans and want to provide an alteration of the plans to your boss. What should you do to plan that discussion?

Critical Thinking Case

How Do Amazon, UPS, and FedEx Manage Peak Seasons?

Typically, the day after Thanksgiving (Black Friday) marks the beginning of the holiday shopping season in the United States. Holiday sales, typically defined as sales occurring in November and December, account for roughly 30 percent of annual sales for U.S. retailers (Holiday Forecasts and Historical Sales 2015). For 2016, total online sales from November 10 to December 31 amounted to 91.7 billion dollars. And the top retailers for this period were eBay, Amazon, Walmart, and Target (Tasker 2016). The growth in online sales appears inevitable, but how do the top shippers, UPS and FedEx, manage the sudden upsurge?

Not always so well. In 2013, both FedEx and UPS underestimated holiday demand, and with bad weather conditions as well, struggled to deliver packages as promised. Since then, both carriers have worked hard to keep adequate resources available to handle the end-of-year upsurge. But in 2014, UPS overcompensated and had too much capacity, once again damaging profitability (Livengood 2017).

Matching retailer expectations to reality is a challenge, and not just for the shipping companies. Although retailers would prefer to know how much to expect in sales, forecasts will be inaccurate, sometimes wildly so.

In preparing its forecast for the 2017 peak season, Logistics Management examined economic factors, such as GDP, job growth, retail sales, and inventory levels. It also looked at imports. An informal survey of logistical professionals found that 93.5 percent expect the 2017 season to be the same as 2016 (35.5 percent) or more active (58 percent) (Berman 2017).

In June 2017, UPS announced that it would be adding a surcharge to some peak season rates. According to the UPS website, "During the 2016 holiday season, the company's average daily volume exceeded 30 million packages on more than half of the available shipping days. In contrast, on an average nonpeak day, the company ships more than 19 million packages" (UPS Establishes New Peak Shipping Charge 2017). The rate for the 2017 peak season would apply to select services and to oversize shipments, primarily (UPS Establishes New Peak Shipping Charge 2017). Analysts see the surcharge as a signal that UPS is the rate setter in parcel delivery. Such an assessment is not surprising given that the increase in parcel delivery as an outcome of increased e-commerce is seen as a core driver of earnings for UPS (Franck 2017).

Second-ranked FedEx, in contrast, announced that it would not follow suit but instead would "forgo most holiday surcharges on home deliveries this year" (Schlangenstein 2017). The surcharges levied by UPS are aimed primarily at small shippers, not the larger contract shippers. By not adding a seasonal surcharge, FedEx might hope to capture sales from individuals and small businesses that are deterred by the UPS surcharge (Schlangenstein 2017).

Kevin Sterling, a Seaport Global Holdings analyst, believes that FedEx has the existing capacity to absorb additional ground shipments. "[FedEx is] going to let UPS be Scrooge at Christmas" (Schlangenstein 2017). UPS already has a contract with Amazon, the de facto behemoth of online shopping, for normal shipping, leaving room for FedEx to pick up the slack during the holiday rush (Schlangenstein 2017).

In contrast, UPS reports that the additional charge is needed to offset the costs of additional resources necessary to achieve expected upsurges in capacity. UPS spokesperson Glenn Zaccara commented, "UPS's peak season pricing positions the company to be appropriately compensated for the high value we provide at a time when the company must double daily delivery volume for six to seven consecutive weeks to meet customer demands" (Schlangenstein 2017).

With or without surcharges, price structures at both companies strive to discourage shipment of heavy, odd-sized, or oversized packages because such packages won't flow through either company's sorting systems and require special handling. All the same, FedEx has seen a 240 percent increase in such shipments over the last 10 years, which make up roughly 10 percent of all packages shipped using its ground services. And although FedEx is not adding a holiday surcharge, per se, it has added charges for packages that require extra handling, particularly shipments between November 20 through December 24 (Schlangenstein 2017).

Critical Thinking Questions:

1. What do you think are some of the difficulties of adding 25 percent more employees for the holiday season? What kind of planning do you think would be needed?
2. China effectively shuts down for two weeks each year and celebrates the lunar new year. How does that resemble (or not) peak season in Western countries?
3. The case focuses on U.S. markets. How are European markets affected by holiday shopping?
4. Have your own shopping habits changed with the ease of online shopping? If so, how? Do you expect them to change when you graduate and have more disposable income?

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18

Management of Technology and Innovation

Exhibit 18.1 (Credit: 6eo tech/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Introduction

Learning Outcome

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

1. What do we mean by management of technology and innovation (MTI), and why is it crucial?
2. How do organizations develop technology and innovation?
3. What are external sources of technology and innovation development, and when are they best used?
4. What are internal sources of technology and innovation development, and when are they best used?
5. How and why do entrepreneurs develop MTI skills?
6. No matter what method is used, what skills do you need to successfully manage technology and innovation?
7. How do you look into the future to keep pace?

EXPLORING MANAGERIAL CAREERS

Acer Group—Becoming a Hardware + Software + Services Global Competitor

Do you think that you would be interested in a career in the technology space? Here is an overview of the history of Acer Corporation that will provide a glimpse into this industry. Acer Group was established in 1976. The Acer Group's family of brands includes Acer, Gateway, Packard Bell, and eMachines. The multibrand strategy of Acer allows each brand to target different customer needs in the worldwide personal computer market. Acer was the third-largest maker of personal computers (second largest in notebooks) in 2008 and had revenues exceeding $16 billion. In 2017, Acer is sixth in the personal computer industry with revenues exceeding $70 billion. This Taiwanese firm has established itself as a global player in the PC market and has expanded into gaming and other related businesses. How it got there is through innovative use of alliances and acquisitions as well as forward-looking development within the firm.

The Firm's History Acer was founded in 1976 as Multitech. The focus of Multitech was on trade and product

design (internal innovation). Just three years later, Multitech designed Taiwan's first mass-produced computer product. The focus from the start was on a product for export—Taiwan is such a small market the firm knew it needed to make a global footprint in the computer market. Multitech, which became Acer in 1987, developed a long-term mission to allow anyone to use and benefit from technology. They have built their reputation on development and manufacturing of sophisticated, intuitive, easy-to-use products.

Early Innovations When Multitech first started, the PC market was young and the founders saw many opportunities. Acer holds more patents than any other Taiwanese-based corporation, and Taiwan accounts for 70 percent of global computer hardware manufacturing. When Acer beat IBM to the market with 32-bit PCs in 1986, it signaled the beginning of the end for IBM's PC business. Until 1990, Acer was more internally innovative than it was externally oriented for alliances and acquisitions.

External Technology Development In 1990, Altos Peripherals was acquired. This marked the beginning of two decades of multiple alliances and acquisitions by Acer. Because of Acer's success in developing innovations, other companies were willing and eager to development different types of alliances. Some of the early alliances allowed Acer to partner with some of the biggest players in the computer technology industry. For example:

- 1996—Acer signed a reciprocal patent licensing agreement with IBM, Intel, and Texas Instruments allowing use of one other's patented technology.
- 1999—Acer Group and IBM formed a seven-year procurement and technology alliance.

This strategy has continued:

- 2010—Acer and Founder Technology signed a memorandum of mutual understanding to strengthen their long-term PC business cooperation.
- 2016—Acer's board of directors approved the establishment of a joint venture with Starbreeze AB to design, manufacture, promote, market, and serve StarVR Virtual Reality Head-Mounted Displays.

As Acer grew in strength in the marketplace, it began to make acquisitions. These acquisitions were aimed at multibranding as well as obtaining technological innovations. For example:

- 1998—Acer acquired Texas Instruments' TI-Acer interest and renamed the company Acer Semiconductor Manufacturing Inc.
- 2007—Acer merged with Gateway Inc.
- 2008—Acer merged with Packard Bell Inc.
- 2008—Acer acquired E-TEN.
- 2015—Acer acquired GPS cycling computer brand Xplova.
- 2016—Acer acquired wireless pet camera maker Pawbo.

To illustrate the usefulness of this strategy, in 2011 Acer Inc. bought iGware Inc. for $320 million to try to enter the potentially lucrative cloud market. Then in 2012, Acer created cloud software and infrastructure tools for devices.

Acer also developed equity-based partnerships. Examples of this strategy include:

- 2009—Acer acquired 29.9% of Olidata.
- 2015—Acer invested in robotics start-up company Jibo.
- 2016—Acer made an equity investment in grandPad, a provider of technology solutions specifically designed for senior citizens.
- 2017—Acer became largest corporate shareholder of AOPEN Inc.

Becoming a Global Competitor While Acer was changing its business model from internal innovations as well as evolving from a manufacturing company to a development and marketing firm, it continued to spread its global footprint. It did this through various partnerships and by developing innovative products

with its partners and within its own R&D areas. For example, in 2003 Acer launched the Empowering Technology Platform to meld hardware, software, and service to provide end-to-end technologies to customers. In 2008, the Aspire One was launched as the company's first mobile Internet device. In addition, Acer made a strong move into the high-end gaming market with the Aspire Predator series.

These steps were designed to enhance and strengthen Acer's global position. Acer's product range includes PC notebooks and netbooks, desktop computers, storage systems, peripheral devices, LCD televisions, and e-business solutions. The firm is number one in a number of markets with various products. The Europe, Middle East, and Africa (EMEA) market is a stronghold for Acer's mobile computing solutions. Acer is the largest supplier of LCD televisions in Western Europe. Acer is first in the notebook market in Italy, Spain, Austria, Holland, Switzerland, Russia, Belgium, Denmark, Hungary, Poland, and the Slovakian Republic.

In the United States and Canada, Acer is making its mark through its Channel Business Model (CBM). It developed this model as it expanded beyond Taiwan and continued to improve it as it divested its manufacturing facilities. This model allows Acer to be flexible in adapting to global IT market trends. CBM involves collaboration with partners and suppliers to develop and market top-tier products and services. In 2003, they used this model to co-brand a notebook computer with Ferrari, the Italian carmaker.

In 2009, Acer unveiled the Acer F900 and M900 smartphones at the Mobile World Congress. They began by shipping to channel partners in EMEA and Asia. These products have a relatively large 3.8-inch-wide VGA display and a 3.75G HSPA connectivity for high-speed data transfer, and they are the introductory products with Acer's new widget-based user interface that provides easy navigation with vivid 3D animation. The acquisition of Packard Bell was key to Acer's entrance into this market with this advanced product.

From 2008 to 2013, Acer's strategy was to enhance worldwide presence with a new multibrand strategy. With the successful completion of the mergers of Gateway and Packard Bell, Acer then heavily emphasized its goal to further strengthen its global footprint with a multibrand strategy and solid partnerships. Since 2014, the Acer Group has been transforming into a hardware + software + services company.

To accomplish this shift, Acer needed to spin off or divest certain units. This accomplished two things: 1) it made cash available for acquisitions and other new business development, and 2) it refocused the strategy of Acer.

Examples of the spin-offs and divestments included:

- 2000—Acer spun off its manufacturing operation to focus on developing technologically advanced, user-friendly solutions.
- 2000—Acer split off its OEM (Original Equipment Manufacturing) business unit to create Wistron Corp., an independent design and IT manufacturing company.

Acer continues to lead in notebook technology while extending its product lines to enhance people's lives through technology. In notebook technology, Acer was the leader in branding notebooks (Ferrari 4000 carbon-fiber notebook—2005), green notebooks (2010), and lightest notebook with the longest battery life (Aspire line—2012), as well as the Chromebook launch in 2015 with a 15.6-inch screen. However, its product lines have multiplied into cloud technology, gaming, and other technologies that "add value to customers' lives" (Acer annual report).

Acer has used a variety of strategic moves to continue to be competitive in the changing world of computer-related technology. Early on, they used internal innovation as a primary growth strategy to build reputation and establish a footprint in the industry. Then they used external methods of acquiring technology and markets—mergers, acquisitions, alliances, joint ventures, equity positions, etc. Acer continues to nurture its strengths in research and development while continuing to look for new opportunities for acquisition and alliances.

Sources: Anonymous. 2009. Acer website , "Showcases Multi-brand Products at Computex 2009 including Aspire Timeline Notebook, Aspire One Netbook, Aspire All-In-One PC." *JCN Newswire- Japan Corporate News Network*. Tokyo, June 3, 2018; www.acer-group.com; Acer Group 10-K reports.

18.1 MTI—Its Importance Now and In the Future

1. What do we mean by management of technology and innovation (MTI), and why is it crucial?

Management of technology and innovation is critical to the organization. Because of innovations and new technologies, we have historically seen the emergence of innovative organizational structures and new ways of performing work. For example, the Industrial Revolution ushered in the functional structure for organizations. As business moved from small craft businesses like Black peoplemiths to railroads, there was a need to introduce a more complex business structure. Today, we see the innovations in information technology changing structures to more network based with people being able to work remotely. The changes in structure are innovations in the technology of how work is accomplished; the innovations brought on by the invention of new products influence the technology we use and how we use it.

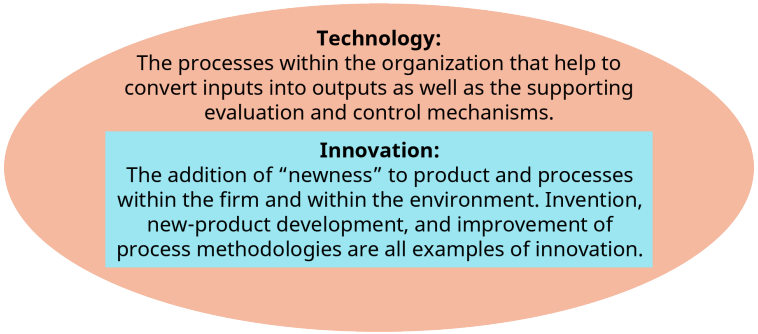

Exhibit 18.2 Technology and Innovation Defined (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Technology can be defined in a number of ways. The basic purpose of a system (such as an organization) is to convert inputs into outputs. Therefore, we will define organizational technology as the processes within the organization that help to convert inputs into outputs as well as the supporting evaluation and control mechanisms. The **management of technology** involves the planning, implementation, evaluation, and control of the organization's resources and capabilities in order to create value and competitive advantage. This involves managing:



Exhibit 18.3 Management of Technology (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

1. Technology strategy—the logic of how technology will be used and what role technology will have in the organization. For example, will innovation (first-to-market strategies dominate) be the focus, or will the firm want to do things better to obtain market share and value (let others take the initial risks)?
2. Technology forecasting—the use of tools to study the environment for potential technological changes that can both positively and negatively affect the firm's value proposition. Digitization of a variety of products such as watches and cameras provided great opportunities for some firms and caused others to go bankrupt. Forecasting (or at least keeping an eye on the changes in technology) is very important in management of technology.
3. Technology roadmapping—the process of taking an innovation or technology and trying to build more value by looking for ways to use the technology in different markets and places.
4. Technology project portfolio—the use of portfolio techniques in development and use of technology enhances the potential value of technologies being developed and the technologies that are currently part of a firm's portfolio. Disney was a leading producer of animated films. However, Disney did not stop there—the portfolio of characters in the films are now marketed as products and displayed in Disney theme parks, and Disney very carefully manages the availability of the animated films.

Innovation activities are an important subset of technology activities. Innovation includes "newness" in the development and use of products and/or processes within a firm and within an industry. Invention, new product development, and process-improvement methods are all examples of innovation. **Management of innovation** includes both change management and managing organizational processes that encourage innovation. The management of innovation is more than just planning new products, services, brand extensions, or technology inventions—it is about imagining, mobilizing, and competing in new ways. For the organization, innovation management involves setting up systems and processes that allow newness that adds value to emerge. Some firms, like Google and 3M, give some employees time during the workweek to work on their own ideas with the hope of sparking new ideas that will add value. Google News and 3M Post-it Notes are products that emerged from this practice. In order to manage innovation processes successfully, the firm must undertake several activities (these can involve the study of technologies currently in use).

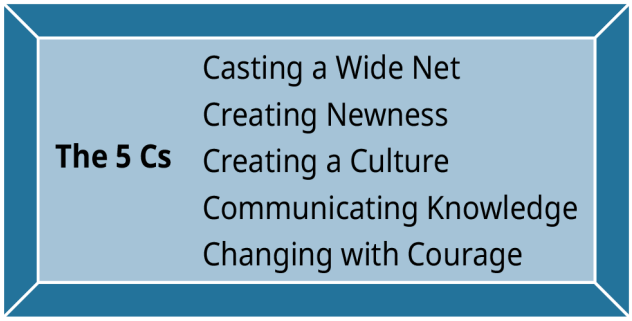

Exhibit 18.4 Innovation Management (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

1. Casting a wide net while trying to keep up with potential changes in the firm, the market, the competition, etc. is crucial. Eastman Kodak was the dominant U.S. camera manufacturer. On several occasions in their history they missed opportunities to take advantage of innovations in their product line—they did not cast their net out. Land, the founder of Polaroid, went to Kodak with his invention of instant photographs—Kodak said no. Kodak did not see the telephone as a potential competitor until it was too late. Kodak was especially vulnerable because the firm was a late entrant into the digital camera market. As a result of failure to cast a wide net in keeping up with trends and innovations, Kodak went bankrupt.
2. Creating newness with existing products can expand the portfolio of value of a product. 3M has done this with all kinds of tape and with different formats and forms of Post-it Notes. Asking "how else can the product be altered or used?" is critical to developing platforms of products.
3. Creating a culture open to newness is critical to cultivating ideas. If the leadership of the firm is open to ideas from all over the organization, then the firm will be more innovative. Some large firms such as Texas Instruments encourage employees to start new businesses if TI does not want to keep a product in house. Often, TI is the first investor and customer of these small firms.
4. Communicating knowledge throughout the firm is important. This knowledge can be positive and negative at first glance. For Post-it Notes, the glue used emerged from the laboratory efforts to create a stronger glue to compete with Elmer's Super Glue. Obviously, the outcome did not meet the original goal, but the communication of the new formula's characteristics—tacky and leaves no residue—triggered other usage.
5. Changing with courage is necessary if a firm is going to manage innovation and stay competitive. Too often firms get comfortable with where they are, narrow their focus in studying the environment, and focus on building strength in their current market. This leads to **strategic inertia**—not innovating and losing customers and market share to more innovative companies. Just as Kodak failed to change, so did IBM—famously, the CEO of IBM was quoted as saying "who wants a computer on their desk?" as IBM continued manufacturing mainframes while desktops and then laptops were emerging.

MANAGING CHANGE



E-Hubs Integrate Global Commerce

Thanks to the wonders of technological advancement, global electronic trading now goes far beyond the Internet retailing and trading that we are all familiar with. Special websites known as trading hubs, or eMarketplaces, facilitate electronic commerce between businesses in specific industries such as automotive manufacturing, retailing, telecom provisioning, aerospace, financial products and services, and more. Virtually all Forex (foreign exchange) is done via trading hubs that provide an open market for trading of a variety of currencies. Because there are a large number of trades involving currencies, the price is discoverable and there is transparency in the market. By contrast, Bitcoin is mainly traded in smaller quantities, and there are often large discrepancies between prices for the cryptocurrency in different

exchanges.

The trading hub functions as a means of integrating the electronic collaboration of business services. Each hub provides standard formats for the electronic trading of documents used in a particular industry, as well as an array of services to sustain e-commerce between businesses in that industry. Services include demand forecasting, inventory management, partner directories, and transaction-settlement services. And the payoff is significant—lowered costs, decreased inventory levels, and shorter time to market—resulting in bigger profits and enhanced competitiveness. For example, large-scale manufacturing procurement can amount to billions of dollars. Changing to "just-in-time purchasing" on the e-hub can save a considerable percentage of these costs.

Electronic trading across a hub can range from the collaborative integration of individual business processes to auctions and exchanges of goods (electronic barter). Global content management is an essential factor in promoting electronic trading agreements on the hub. A globally consistent view of the "content" of the hub must be available to all. Each participating company handles its own content, and applications such as *content managers* keep a continuously updated master catalog of the inventories of all members of the hub. The *transaction manager* application automates trading arrangements between companies, allowing the hub to provide aggregation and settlement services.

Ultimately, trading hubs for numerous industries could be linked together in a global e-commerce web—an inclusive "hub of all hubs ." One creative thinker puts it this way: "The traditional linear, one step at a time, supply chain is dead. It will be replaced by parallel, asynchronous, real-time marketplace decision-making. Take manufacturing capacity as an example. Enterprises can bid their excess production capacity on the world e-commerce hub. Offers to buy capacity trigger requests from the seller for parts bids to suppliers who in turn put out requests to other suppliers, and this whole process will all converge in a matter of minutes."

Sources: "Asian Companies Count Losses—Hatch Ways to Cope with Weak Dollar," *Reuters*, https://www.reuters.com, January 24, 2018; Rob Verger, "This Is What Determines the Price of Bitcoin," *Popular Science*, https://www.popsci.com, January 22, 2018; Bhavan Jaipragas, "Alibaba's Electronic Trading Hub to Help Small and Medium-sized Enterprises Goes Live in Malaysia," *This Week in Asia*, http://www.scmp.com, November 3, 2017.

Critical Thinking Questions

1. How do companies benefit from participating in an electronic trading hub?
2. What impact does electronic trading have on the global economy?

There are six critical areas that affect society and business and thus require firms to practice good management of technology and innovation. Each of these must be managed for value to be created and captured:[1]

1. Management of Human Resources. Work environment (tools and structures) are much different today than they were at the turn of the millennium. For example, the iPhone was first introduced in 2007. Cell phone technology in the year 2000 was not for everyone—most people still had landline telephones. The introduction of cell phone technology and its use in business has made many employees feel like they are on 24-hour call. Because workers tend to carry their phones everywhere, they are available to be called, texted, or e-mailed.

   Providing learning opportunities (whether online or traditional training and development) has become a more important part of human resources management—employees need to be given time to adjust to the introduction of new ways of working, new software, etc. For example, it is the rare 45-year-old manager today that owned or used a laptop computer before graduating college.

2. Cooperative Model Expansion. The more rapidly innovation occurs, the more rapidly technology occurs within firms, within industries, and within economies. These changes require that cooperatives be developed. These cooperatives can take a variety of forms, both internal and external to the firm. We will discuss internal and external MTI as well entrepreneurial MTI.
3. Internationalization. There is much more internationalization of products and markets. Sometimes, the innovations spread in ways that were not predicted. For example, GE wanted to develop a portable MRI machine to be used in less-developed countries. The machine would be portable and would use a laptop interface to send images for diagnoses. It was successful developed and a plant was built overseas, and then GE discovered there were markets in more-developed economies that they had not considered. For example, large-animal veterinarians wanted to use the machines on farms and ranches. Finding the best markets and the best production options has become an important part of MTI.
4. Issues around Environmental Concerns. Environmental concerns can be important throughout the whole life cycle of a product. From development to manufacturing to usage to disposal, are all concerns for MTI. For example, energy production is a cause of great concern. The use of fossil fuels such as coal, oil, and natural gas have impacted carbon levels in the atmosphere. Nuclear power does not have that impact, but accidents at such facilities can be catastrophic. Use of wind, water, waves, and sunlight to produce energy does not lead to carbon emissions, but there are other environmental concerns. Building large dams such as Hoover Dam in the United States is much more difficult now because society is much more aware of the changes in the ecosystem such large projects cause.
5. Growth of Service Industries. As economies become more knowledge and information based, service industries will continue to grow. The services provided by Internet suppliers, specialists in network security, etc. will influence how business will grow for the foreseeable future—especially in developing economies. The emergence of a more knowledge- and information-based global economy means that services will become more critical and service industries will continue to grow at a faster pace than product-based industries.[2]
6. Use of Intellectual Property Rights (IPR) as a Strategic Resource. Because many new products and processes are based on intellectual property rights (patents, copyrights, and trademarks), it is crucial that organizations manage their IPR as a valuable asset. This requires value articulation through value transference, translation, and transportation.[3] For example, Dolby Laboratories patented innovative noise-reduction technology that was translated to a stereo film sound technique that was patent protected to transportation to new patents protecting “analog world.” As a result, Dolby enjoyed long-term growth from its innovation and over 80 percent of its revenues came from licensing the technology rather than producing competing products.



Exhibit 18.5 Ideo To demonstrate the process for innovation for a 1999 episode of ABC's late-night news show *Nightline*, IDEO created a new shopping cart concept, considering issues such as maneuverability, shopping behavior, child safety, and maintenance cost. The show concentrated on IDEO's design process, recording as a multidisciplinary team brainstormed, researched, prototyped, and gathered user feedback on a design that went from idea to a working appearance model in four days. (Credit: David Armano/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Organizations have to be flexible in the management of technology and innovation. Acer, in the opening case, has used a variety of methods to acquire new technology and to innovate and expand its platforms. When Acer started out, the management realized that being a domestic company in Taiwan was very limiting, so they cast their net widely. They originally used internal R&D to grow. Then they expanded their markets and their product lines through mergers and acquisitions. They have increased their product offerings as the laptop market has matured. They are now using services platforms to continue their expansion and growth.

CONCEPT CHECK

1. How are management of technology and management of innovation similar? How are they different?
2. How can firms create value through good management of technology and innovation?
3. How has Acer managed its technology and innovation processes?

18.2 Developing Technology and Innovation

2. How do organizations develop technology and innovation?

There are a number of ways that organizations can develop and manage technology and innovation. We will focus on organization-level activities and the three strategic processes in this section of the chapter.

In order for a firm to develop a successful management of technology and innovation strategy, it is imperative that the organization be readied for the effort. This requires agility because changes and adjustments to products and processes are filled with risk and uncertainty. However, agility is inherently less efficiency if it is to be effective. Therefore, the management of technology and innovation must balance short-term efficiency with long-term effectiveness in the market if the firm is to add value and thrive in a changing environment. Strong dynamic capabilities are needed if the organization is going to be able to address the challenges of innovation and dynamic competition.[4] There are four things the firm should do to balance the conflicting demands of being agile in a dynamic environment. These are:

1. Design systems and processes that can identify, assess, and develop technology based opportunities (or protect from new technology threats). The systems and processes should be able to sense what is coming.
2. Identify communication needs and efficiently turn data into information so that the right information can be available to make the best decision in a timely fashion. The current interest in big data and what it can tell firms is tied to the notion that we have a lot of bytes of data available because of computer technology that are not being used effectively or efficiently.
3. Develop employees through training and learning opportunities. This becomes more critical as the competitive environment for the organization becomes more dynamic. The management of technology and innovation requires that all levels of the organization are involved and that efforts are made to ensure that employees are allowed to enhance their skills for themselves and the organization. The more dynamic the environment, the more important skill enhancement is for the firm and the individual.
4. Use good change management processes to help the firm succeed in introducing newness into the organization. Many firms learned expensive lessons when desktop computers were introduced into the workplace. First, most managers did not type, so they did not adopt the new technology. Second, younger staff members were more likely to be comfortable with the new computers (even elated because the computer was better than they could afford at home), so knowledge power was turned upside down from the hierarchy and seniority. Third, many firms installed desktops with little or no training (because they were "upgraded typewriters") while leaving the typewriters easily accessible. The result was that some companies deemed desktops a failure and sold the equipment at a loss. Obviously, desktop computers are now a vital tool in the workplace, but this just illustrates what happens when a good change management process that includes proper support systems, communication, and training is not implemented.

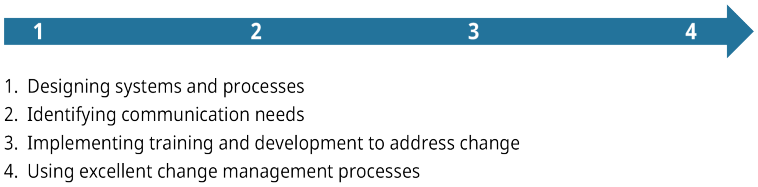

Exhibit 18.6 Key Management Activities (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

There are three basic organizational processes—buying and partnering, developing newness within the firm, and entrepreneurially exploiting a space in the environment. **Exhibit 18.6** delineates the three types. Buying and partnering includes mergers and acquisitions, joint ventures, contractual agreements, and other forms of acquiring technology/innovation from external sources. Internal sources of new technology/innovation for the organization include research and development of new products as well as reconfiguring or developing new processes—ways of doing things. This can be organization structure or redesigning an assembly line. Adding robotics to a manufacturing process may be an internally driven process, or a firm may buy a robotics manufacturer to acquire the capability to add robotics to the assembly process.



Exhibit 18.7 Three Methods of Creating New Technologies/Innovations (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The third type of creating new technologies/innovations involves exploiting a space in the environment through entrepreneurial or new-business development activities. Michael Dell started Dell in his dormitory room at University of Texas. He wanted a better computer than he could buy, so he bought parts and assembled his own. Friends asked him to build one for them. He realized there was an innovative process of customizing computers and delivering directly from the manufacturer to the customer. Michael Dell’s exploitation of the custom-built, direct manufacturer-to-customer delivery led to a multibillion dollar business. **Table 18.1** lists the advantages and disadvantages of each of the technology/innovation creation methods.

Advantages and Disadvantages of Creation Methods		
Method	**Advantages**	**Disadvantages**
External Processes: M&A, joint ventures, contractual relationships, cross-organizational projects, informal relationships	a. Quicker b. Blending rather than discovering c. Often less costly	a. Requires bringing different firm cultures together b. Often leads to perception of winners and losers c. Not-invented-here syndrome
Internal Processes: R&D	a. Clear ownership of the technology/ innovation b. Legal protections may be stronger	a. Often takes longer b. Key personnel may leave at a critical time c. Can be very costly
New Business/Entrepreneurship	a. Usually more agile and flexible in the marketplace b. Dedicated leadership—it is their "baby"	a. Highest risk factor b. Lack of skills within the firm to do things besides innovation c. Usually have very little slack

Table 18.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

CONCEPT CHECK

1. How do managers develop technology and innovation?
2. What are the advantages and disadvantages of each creation method?

18.3 External Sources of Technology and Innovation

3. What are external sources of technology and innovation development, and when are they best used?

The external processes for developing and acquiring technology and innovation include a variety of options. They are most successfully used under the following circumstances:

1. The product line or the processes of the firm have fallen behind those of its competitors.
2. A new entrant into the market of the industry has changed the competitive dynamics.
3. A firm believes that its product mix or way of doing things is not going to be successful in the long run.

The major advantage of using an external process is speed—for the focal firm, the time needed to blend an acquired technology or innovation is usually much shorter than the time required to try to make a discovery and bring it to market or implement it within the firm. Often, the external processes are less costly. The

disadvantages are tied to the need to blend different firms or bring "others" into the activities of the firm. For example, there may be cultural conflicts in an acquisition or there may be resistance to acceptance of the newness that is brought into the firm.

The most common types of external processes used to enhance technology and innovation in a firm include:

1. **Mergers/acquisitions (M&A)**, which involve ownership changes within the firms. For an acquisition, one firm buys another; for a merger, the two firms come together and form a new firm. The essence of both of these approaches is that a new, larger organizational entity is formed. The new firm should have more market power (be larger) and should gain knowledge about a technology or domain of activity. The blending of two cultures, two sets of processes, and two structures are all potential disadvantages of M&A activity.
2. **Joint ventures** are long-term alliances that involve the creation of a new entity to specifically carry out a product/process innovation. The entity is usually governed by a contractual relationship that specifies the contributions and obligations of the partners in the joint venture. There are potential culture clashes as well as the potential for **strategic drift**—losing strategic focus on the reasons for the joint venture.
3. **Franchise agreements** are usually long-term agreements that involve long payoffs for the sharing of known technology. Fast food restaurants, such as McDonald's, use franchise agreements with store owners. McDonald's provides R&D for new processes and new products. The store owners (franchisees) pay a fee for the use of the name and the marketing of the product. The contract and monitoring costs associated with franchise agreements are the big disadvantage of this type of alliance.
4. **Licensing agreements** involve technology acquisition without R&D. For example, Dolby contracts with producers of various type of sound equipment to allow them to use their technology to have better sound quality. Licensing agreements are quite common in high-tech industries. The contract costs and constraints are the disadvantages of licensing agreements.
5. **Formal and informal contracts** are used to allow firms to share technology between them. For formal contracts, the length of time the contract is enforceable is a defining characteristic. The more formal a contract, usually the longer it is, and it usually includes more details about the usage and limitations of the technology. For the informal contract, the advantage is that if the activity is no longer beneficial, it is much easier to disband.

All of the methods are of use to firms large and small. In the opening case, Acer used a number of methods to externally acquire technology.

CONCEPT CHECK

Look at the Acer case at the beginning of the chapter and respond to the following items.

1. Identify the times Acer used external methods of acquiring newness for their organization.
2. What goals did they accomplish?

18.4 Internal Sources of Technology and Innovation

4. What are internal sources of technology and innovation development, and when are they best used?

The most common type of internal process for technology and innovation in the organization is **research and development (R&D)**. R&D involves the seeking and developing of new technologies, products, and/or processes through creative efforts within the firm. The benefits of internal processes include ownership of the technology/innovation that provide legal protections (i.e., patents and trademarks). In addition, the understanding and the knowledge gained from the process of R&D can give the firm a head start on the next

generation of technology. Apple's place as a first mover in the technology of laptops and telephones allowed it to maintain a creative advantage for a number of years. The disadvantages of R&D are that it is usually slower and more costly and can be disrupted by the departure of key personnel. The death of Steve Jobs has slowed the innovation of Apple in the eyes of many consumers.

ETHICS IN PRACTICE



Unearthing Your Secrets

Cybercrimes in our technologically driven world are on the increase—identity theft, pornography, and sexual predator victim access, to name a few. The FBI's computer analysis response team confirms their caseload includes 800 cases reported *per day* in 2017. To keep up with the changing world we live in, law enforcement, corporations, and government agencies have turned to new crime-fighting tools, one of the most effective being digital forensics.

The leader in this technology is Guidance Software, founded in 1997 to develop solutions that search, identify, recover, and deliver digital information in a forensically sound and cost-effective manner. Headquartered in Pasadena, California, the company employs 391 people at offices and training facilities in Chicago, Illinois; Washington, DC; San Francisco, California; Houston, Texas; New York City; and Brazil, England, and Singapore. The company's more than 20,000 high-profile clients include leading police agencies, government investigation and law enforcement agencies, and Fortune 1000 corporations in the financial service, insurance, high-tech and consulting, health care, and utility industries.

Guidance Software's suite of EnCase® solutions is the first computer forensics tool able to provide world-class electronic investigative capabilities for large-scale complex investigations. Law enforcement officers, government/corporate investigators, and consultants around the world can now benefit from computer forensics that exceed anything previously available. The software offers an investigative infrastructure that provides network-enabled investigations, enterprise-wide integration with other security technologies, and powerful search and collection tools. With EnCase, clients can conduct digital investigations, handle large-scale data collection needs, and respond to external attacks.

Notably, the company's software was used by law enforcement in the Casey Anthony murder case and the Sony PlayStation security breach, and was used to examine data retrieved by U.S. special forces in the Osama bin Laden raid.

Guidance Software also helps reduce corporate and personal liability when investigating computer-related fraud, intellectual property theft, and employee misconduct. It protects against network threats such as hackers, worms, and viruses and hidden threats such as malicious code.

In response to increases in the number and scope of discovery requests, Guidance Software developed its eDiscovery Suite. The software package dramatically improves the practice of large-scale discovery—the identification, collection, cataloging, and saving of evidence—required in almost every major legal case these days. eDiscovery integrates with other litigation-support software to significantly decrease the time for corporations to accomplish these tasks. At the same time, it improves regulatory compliance and reduces disruption. The result is many millions of dollars in cost savings. In late 2017, Guidance Software was acquired by OpenText, an enterprise information management company that employs more than 10,000 people worldwide.

Sources: FBI website, https://www.fbi.gov, accessed January 15, 2018; Guidance Software website, https://www.guidancesoftware.com, accessed January 15, 2018; OpenText website, https://www.opentext.com, accessed January 15, 2018; "Casey Anthony: The Computer Forensics," *The State v Casey Anthony website*, https://statevcasey.wordpress.com, July 18, 2011; Declan McCullagh, "Finding

Treasures in Bin Laden Computers," *CBS News*, https://www.cbsnews.com, May 6, 2011; Evan Narcisse, " Who's Cleaning Up the PSN Debacle for Sony?" *Time,* http://techland.time.com, May 4, 2011.

Critical Thinking Questions

1. How is Guidance Software responding to and helping to manage changes in our technology-driven world?
2. What other types of forensics software do you foresee a need for in the future? Do you think there are ethical issues in using forensics software, and why or why not?
3. What are the benefits and risks of Guidance Software being acquired by a larger company?

CONCEPT CHECK

1. Look at the Acer case at the beginning of the chapter. Identify the times they used internal methods of acquiring newness for their organization.
2. What goals did they accomplish?

18.5 Management Entrepreneurship Skills for Technology and Innovation

5. How and why do entrepreneurs need to develop MTI skills?

Entrepreneurial activities in the marketplace often signal newness in a product or process. For an entrepreneurial firm, the value proposition is a key factor. The **value proposition** answers the follow two questions:

1. How will the firm make money on the product and/or services offered?
2. How will the firm be positioned in the marketplace?

New business entities (a type of entrepreneurial activity) are usually more flexible and agile in the marketplace. The entrepreneur is very dedicated to the success of the firm because the new business is the "baby" of the entrepreneur. The starting of a new business is the riskiest approach for introducing new products and processes. The failure rate for entrepreneurs is high. Because the firm is new, there is usually very little slack in resources available—money is tight, labor is limited, and time is fleeting. Therefore, entrepreneurial activities are most successful when the **lean start-up** process can be used. It is applicable where development costs are low and revisions are not very costly. One reason there are many startups in the development of applications for mobile phones is that the costs are low and improvement of the product (once successful) is relatively easy. Entrepreneurs have the ability to adapt their plans incrementally, especially when using lean start-up methods.[5] For entrepreneurs, the capabilities to sense, seize, and transform can be an advantage if they stay agile and avoid overcommitting to a course of action.[6] Entrepreneurs, by definition, are more agile than the more-established organizations.

This agility is true within large firms that want to continue to be entrepreneurial in their activities. Firms such as Google and 3M allow their employees to work on innovative projects during their working hours. Google modeled their policy of allowing employees time to explore other potential products and processes after 3M's longtime policy. Both of these firms are known as innovative firms because they encourage employees to look for and test innovative and valuable propositions. The flexibility allowed employees gives both Google and 3M the agility to find new ways of doing things.

CONCEPT CHECK

1. In the beginning, Acer was very entrepreneurial. However, the firm realized that if it was to continue to grow, it needed to develop some structures and processes. What adjustments did Acer make to become a global firm?

18.6 Skills Needed for MTI

6. No matter what method is used, what skills do you need to successfully manage technology and innovation?

There are a number of skills needed to successfully manage technology and innovation in the organization. No matter what organization you are a part of, there are two skills the organization must develop to be successful—the ability to manage learning and knowledge processes, and the ability to analyze and forecast future trends. Individual skills that are critical to the organization's success include leadership/followship and creative thinking.

Organizational skills involve how the firm puts people and resources together to create value—building capabilities. With the right capabilities, the organization can develop a competitive advantage. In the world of technology and innovation, the management of learning and knowledge processes is critical. The organization needs to have systems in place that allow it to collect data that can be analyzed to form information. The information needs to be used to gain knowledge and insight. At each step, learning takes place. **Organizational learning** is the acquisition of knowledge through the collection of data that is analyzed to gather information, which is then transferred and shared through communication among members of the organization. This communication process provides the foundation for knowledge acquisition and enhancement within the firm. There are two types of knowledge that must be managed: **explicit knowledge** (codified or written down as rules or guidelines) and **tacit knowledge** (which emerges from experience of an individual). Tacit knowledge can become explicit at some point if the expert is able to codify the knowledge for others. However, it is not always possible to codify tacit knowledge. For example, Henry Bessemer was sued by the patent purchasers who could not get his steel-making process to work. In the end Bessemer set up his own steel company because he knew how to gauge when to add and subtract heat based on the impurities in the iron ore, even though he could not convey it to his patent users. Bessemer's company became one of the largest in the world and changed the face of steelmaking. After the introduction of the Bessemer process, steel and wrought iron became similarly priced, and some users, primarily railroads, turned to steel.[7] The insights and experiences that are gained from the gathering of data and converting that data into information are key to successful MTI. Organizational knowledge is the sharing and utilization of the learning that takes place in the firm.



Exhibit 18.8 Ben Fried In today's high-tech world, CIOs must possess not only the technical smarts to implement global IT infrastructures, integrate communications systems with partners, and protect customer data from insidious hackers, but they must also have strong business acumen. Google's acclaimed tech chief Ben Fried manages the technology necessary to deliver more than nine billion searches daily, with an eye towards greater business efficiency, growth, and profits. *Why is it important for CIOs to possess both technological and business expertise?* (Credit: Enterprise 2.0 Conference/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

The ability to forecast the future is another key organizational skill in the management of technology and innovation. This involves scanning the environment for trends and possible areas of value-creation opportunities. It also involves understanding the risk involved with newness in the firm and the risk involved in not seeking newness—both can cause the firm to lose value. Any method of forecasting comes with limitations. These include:

1. Forecasting methods, by definition, are uncertain in their outcomes. Usually the firm is trying to develop scenarios concerning best, worst, and most likely outcomes. With this information, risk can be assessed.
2. Forecasts are imperfect—the firm cannot predict all potential influences in the competitive marketplace. Bessemer knew he had a better process, but he did not predict the problems he had licensing his patent.
3. Forecasts are at best an educated guess. Many forecast techniques rely on statistical analysis, but the numbers used in the analysis are forecasts themselves or rely on patterns of behavior continuing in the marketplace.
4. With all the issues with forecasting, a company that produces excellent forecasts will most likely formulate better strategy and capture more value.

The knowledge-management system of the firm can help the ability of the firm to forecast. Experience and learning about industry and general environment trends can help individuals and teams forecast more accurately.

Individuals within the firm also need to have certain skills to enhance the management of technology and innovation processes. These skills include a balance of leadership and followship and the ability to think creatively.

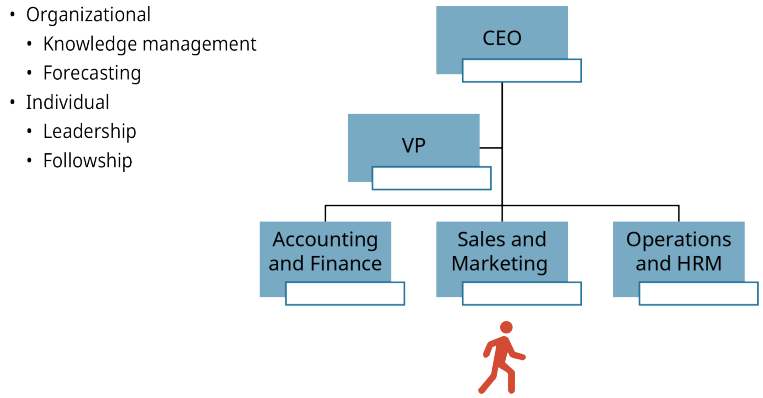

Exhibit 18.9 Needed Skills for MTI (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Most individuals in the organization understand what **leadership** is. For MTI, it is important that the right person be in the leadership position when needed. For example, in new product development, the leader during the design phase is likely to be an engineer, the leader in the prototype development phase may be an engineer or a production person, and as the product is introduced to the marketplace the leader may be a marketing person. It is necessary for these individuals to communicate, and they may all be on a project team that is under the direction/coordination of a dedicated project manager. However, the leadership on the project shifts within the creation-to-market process. While leadership is critical, so is **followship**. Followship is the mirror image of leadership. Most will never have taken a class in followship. You cannot have leaders without followers. There is a skill set for leadership and a skill set for followship. It is the actions of followers that determine the success of a leader. The success of organizations is more the result of good followship than of great leadership. Leadership is influencing others, and followship is seeking or accepting influence. In the case of new product development outlined above, each of the individuals were leaders during some point in the project and each were followers during the project. Individuals spend a lot of time seeking and learning about leadership, but followship is also critical to organizational success. Innovative companies are often lead by a combination of two individuals who lead and follow each other. For example, Microsoft was founded by Bill Gates and Paul Allen. The names of firms started or built by two people are common: Sears & Roebuck, Proctor & Gamble, Marks and Spencer. The characteristics of a good follower include:

1. They are truthful. Followers who tell the truth and leaders who listen are an unbeatable combination.
2. They are supportive. Don't blame your boss for an unpopular decision or policy. "I know this is an unpopular decision, but..." Absent person example of trust. [I call it confessing the sins of the boss in the hallway after the meeting.]
3. They give the boss the benefit of their knowledge and experience. Your job is to make the organization successful.
4. They take the Initiative to solve problems by providing solutions, not just issues.
5. They keep the leader Informed. The higher a manager is in an organization, the more people are less inclined to talk openly with them. Great followers provide the good, the bad, and the ugly of information, knowledge, and experience.

CONCEPT CHECK

1. What is organizational learning?
2. What are the differences between leadership and followship?
3. What forecasting techniques are used in the management of technology and innovation?

18.7 Managing Now for Future Technology and Innovation

7. How do you look into the future to keep pace?

To keep pace with changes in technology and to keep up with needed innovation processes, individuals within the firm must keep track of what competitors are doing as well as what inventions or discoveries may usurp an industry's place in the market. This is an external process, and that involves scanning the environment. The information gathered during scanning should inform the firm about the general trends and opportunities to create new value. Internally, the firm wants to understand the task and processes as well as understand the skills that currently exist in the organization. By identifying potential future scenarios in the external environment and understanding what resources and capabilities the firm has, the task for those managing technology and innovation becomes answering the key questions:

1. Where are we now?
2. Where do we want to be?
3. What do we need to move from here to there?

CONCEPT CHECK



1. How do you keep up with a constantly evolving environment of technology and innovation?

Key Terms

entrepreneurial activities The implementation of new ventures and idea generation in organizations.
explicit knowledge Information codified or written down as rules or guidelines.
followship The process of seeking or accepting influence.
formal and informal contracts Used to allow firms to share technology between each other.
franchise agreements Long-term agreements that involve long payoffs for the sharing of known technology.
innovation Invention, new product development, and process-improvement methods are all examples of innovation.
joint ventures Long-term alliances that involve the creation of a new entity to specifically carry out a product/process innovation.
leadership The action of leading a group of people or an organization.
licensing agreements Involve technology acquisition without R&D.
management of innovation Includes both change management and managing organizational processes that encourage innovation.
management of technology The planning, implementation, evaluation, and control of the organization's resources and capabilities in order to create value and competitive advantage.
mergers/acquisitions (M&A) For an acquisition, one firm buys another; for a merger, the two firms come together and form a new firm.
organizational learning The acquisition of knowledge through the collection of data that is analyzed to gather information, which is then transferred and shared through communication among members of the organization.
research and development (R&D) Involves the seeking and developing of new technologies, products, and/or processes through creative efforts within the firm.
strategic drift Occurs when a joint venture loses strategic focus on the reasons for the joint venture.
strategic inertia The tendency of organizations to continue on their current trajectory.
tacit knowledge Emerges from experience of an individual.
technology The branch of knowledge that deals with the creation and use of technical means and the application of this knowledge for practical ends.
value proposition A promise by a company to a customer or market segment.

Summary of Learning Outcomes

18.1 MTI—Its Importance Now and In the Future

1. What do we mean by management of technology and innovation (MTI), and why is it crucial?

Management of technology and innovation is critical to the organization. Because of innovations and new technologies, we have historically seen the emergence of innovative organizational structures and new ways of performing work. The management of technology involves the planning, implementation, evaluation, and control of the organization's resources and capabilities in order to create value and competitive advantage. Management of innovation includes both change management and managing organizational processes that encourage innovation.

18.2 Developing Technology and Innovation

2. How do organizations develop technology and innovation?

There are four things the firm should do to balance the conflicting demands of being agile in a dynamic environment. These are: design systems and processes, identify communication needs and efficiently turn data into information, develop employees through training and learning, and use good change management processes. There are three basic organizational processes—buying and partnering, developing newness within

the firm, and entrepreneurially exploiting a space in the environment.

18.3 External Sources of Technology and Innovation

3. What are external sources of technology and innovation development, and when are they best used?

The external processes for developing and acquiring technology and innovation include a variety of options. They are most successfully used under the following circumstances:

1. The product line or the processes of the firm have fallen behind those of its competitors.
2. A new entrant into the market of the industry has changed the competitive dynamics.
3. A firm believes that its product mix or way of doing things is not going to be successful in the long run.

The most common types of external processes used to enhance technology and innovation in a firm include: mergers/acquisitions (M&A), joint ventures, franchise agreements, licensing agreements, and formal and informal contracts.

18.4 Internal Sources of Technology and Innovation

4. What are internal sources of technology and innovation development, and when are they best used?

The most common type of internal process for technology and innovation in the organization is research and development (R&D). R&D involves the seeking and developing of new technologies, products, and/or processes through creative efforts within the firm. The disadvantages of R&D are that it is usually slower and more costly and can be disrupted by the departure of key personnel.

18.5 Management Entrepreneurship Skills for Technology and Innovation

5. How and why do entrepreneurs develop MTI skills?

For an entrepreneurial firm, the value proposition is a key factor. New business entities (a type of entrepreneurial activity) are usually more flexible and agile in the marketplace; however, the failure rate for new entrepreneurial firms is high. Entrepreneurs, by definition, are more agile than the more-established organizations. Agility is crucial within large firms that want to continue to be entrepreneurial in their activities.

18.6 Skills Needed for MTI

6. No matter what method is used, what skills do you need to successfully manage technology and innovation?

There are two skills the organization must develop to be successful—the ability to manage learning and knowledge processes, and the ability to analyze and forecast future trends. Individual skills that are critical to the organization's success include leadership/followship and creative thinking. There are two types of knowledge that must be managed: explicit knowledge and tacit knowledge.

18.7 Managing Now for Future Technology and Innovation

7. How do you look into the future to keep pace?

To keep pace with changes in technology and to keep up with needed innovation processes, individuals within the firm must keep track of what competitors are doing as well as what inventions or discoveries may usurp an industry's place in the market. This is an external process, and that involves scanning the environment.

Chapter Review Questions

1. How do we define technology and innovation, and how are they related?
2. What are the four areas that need to be managed by the firm if it is going to take advantage of the technology it has and the technology it needs to create?

3. What are the five Cs of managing innovation, and how do they help direct a firm's innovation activities?
4. How does an organization enhance its agility? When is more agility needed in the firm?
5. Compare and contrast the advantages and disadvantages of the three approaches for technology and innovation development.
6. What circumstances indicate a firm should consider an external process for developing/acquiring technology?
7. How does a firm determine the type of external process for developing/acquiring technology it should pursue?
8. What are the benefits of using internal sources for developing new technologies, products, and/or processes? What are the potential disadvantages?
9. How does an entrepreneurial firm identify and utilize a value proposition?
10. How does knowledge management impact the management of technology and innovation?
11. Followship is critical to MTI—how does the quality of followship in the organization impact the ability of leadership to create value?
12. How does the management of technology and innovation help a firm create value? Why should the firm strive to have a unique value proposition?

Management Skills Application Exercises

1. Assess the education that you have received from grade school up to this course. What technology has been used to provide education to you? What technology and innovation would improve the "product" of education?
2. Come up with 50 alternative uses for the following products: day-old newspapers, old television sets, ballpoint pens, used Dixie cups. Share your results with other students as see if that develops new ideas.
3. Think of the best experience you have had using a smartphone app (e.g., banking, rideshare, etc.) and a bad experience that could be improved through an app. Describe the features and functionality and the benefits for both the customers and organization that would use the app.

Managerial Decision Exercises

1. You are a manager at a traditional automobile manufacturer (Ford, GM, Daimler-Chrysler). You know that Tesla is an up-and-coming competitor, and you're also working on electric cars for your company. An article in the *Wall Street Journal* about electric cars and the future of gas stations has caught your interest.[8] One sentence has caught your eye: "Until you drive an EV, you are colored by 135 years of going to the gas station. Under that scenario, you say 'Where is the new company that's doing EV charging on street corners or in my highway entrance?,' but that isn't really how this works." What innovations regarding recharging or other aspects of traditional "driving" could be incorporated into the electric vehicles you are developing?
2. You are a sales manager and know that technologies like automation, robotics, artificial intelligence, and the Internet of things are changing the way that you use and interact with the products that you use. You sense that your customers might be a good source for forecasting future product innovations. You decide to ask your salespeople to interview their toughest customers to generate ideas. Write up eight questions that your sales representatives can use to gather the information.
3. In October 2015, Google restructured into Alphabet, a holding company, which analysts said would facilitate innovation among its diverse subsidiaries. What are the benefits and risks of this decision, and would you have made a similar or alternative decision?

Critical Thinking Case

Novartis's Prescription for Invoice Processing

What do you do when you have more than 600 business units operating through 360 independent affiliates in

140 countries around the world—processing complex invoices in various languages and currencies? You seek out the best technology solution to make the job easier.

At global pharmaceutical giant Novartis, the IT department is a strategic resource, a community of 2,000 people serving 63,000 customers in 200 locations and 25 data centers. Because most of the company's invoices come from international suppliers, they have differences in design, language, taxes, and currency. Consequently, many ended up as "query items" requiring manual resolution by Novartis accounting staff—which delayed payments and made those invoices extremely costly to process. In fact, finance personnel spent so much of their time resolving queried invoices that other work suffered. A solution was badly needed.

To maximize its investment, Novartis needed a flexible solution that would meet its current and future needs and function in other business departments in a variety of geographic locations. It should provide fast, accurate document capture and multilanguage support, and should extend to other types of information—such as faxes and electronic data—in addition to paper documents. Finally, in order to obtain financing for the project, return on investment (ROI) was required within nine months of project implementation.

Input *Accel* for Invoices from EMC/Captiva was the answer. The software extracts data from paper documents, applies intelligent document recognition (IDR) technology to convert them to digital images, and sends relevant data to enterprise resource planning, accounts payable (A/P), and other back-end management systems. The specialized Input *Accel* server manages output by recognizing and avoiding holdups in the workflow process. It also ensures if a server goes offline, others will carry on functioning, thus avoiding downtime.

Now Novartis scans incoming invoices at a centrally located site, and the images are transmitted to the Input *Accel* for Invoices server for image improvement. Invoice data is then extracted and validated against supplier information. Most invoices are transferred directly for payment, with relatively few invoices requiring transfer to one of three accounts payable clerks who deal with queries manually. Novartis is a global leader in research and development of products that improve health issues. Input *Accel* was selected by Novartis to be part of its accounting system.

Thanks to IT, overall efficiency has increased, processing errors are reduced, and accounting personnel can use their time and expert knowledge for more meaningful tasks than resolving invoice errors. For Novartis, it is "mission accomplished."

Critical Thinking Questions

1. What factors contributed to Novartis's invoice processing being so complex?
2. How did IT help the company solve that problem?
3. What other uses and functions does Input *Accel* serve, and how will this be useful to Novartis over the long term? (You may want to visit the EMC/Captiva website, **https://www.emc.com**, for more information on Input *Accel*'s capabilities.)

Sources: "OpenText Acquires EMC Enterprise Division," *MetaSource*, http://www.metasource.com, September 20, 2016; Novartis corporate website, http://www.novartis.com, March 20, 2006; "Processing Invoices From Around the World," *ECM Connection,* https://www.ecmconnection, February 2, 2006; Kathryn Balint, "Captiva's Paper Chase Paying Off," *San Diego Union-Tribune,* December 9, 2005, pp. C1, C5.

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